

PD-ABY-333

**UKRAINE**

**RESULTS REVIEW**

**AND**

**RESOURCE REQUEST**

**USAID/West NIS**

**June 3, 1996**

A

## Table of Contents

|   |     |
|---|-----|
| Part I. Factors Affecting Program Performance   | 1   |
| Part II. Progress toward Strategic Objectives   |     |
| Results Framework and Results Report  |     |
| SO 1.1. Increased transfer of state-owned assets to the private sector                              | 8   |
| SO 1.2. Increased soundness of fiscal policies and fiscal management practices                      | 22  |
| SO 1.3. Accelerated development and growth of private enterprises                                   | 29  |
| SO 1.4. A more competitive and market-responsive private financial sector                           | 46  |
| SO 1.5. A more economically sustainable and environmentally sound energy sector                     | 54  |
| SO 2.1. Increased better-informed citizens' participation in political and economic decision-making | 62  |
| SO 2.2. Legal systems that better support democratic processes and market reforms                   | 67  |
| SO 2.3. More effective, responsible and accountable local government                                | 72  |
| SO 3.1. Reduced human suffering and crisis impact   | 78  |
| SO 3.2. Improved sustainability of social benefits and services                                     | 85  |
| SO 3.3. Reduced environmental risks to public health  | 92  |
| Special Objectives  | 99  |
| Part III. Resource Requirements   |     |
| A. Program Funding Request by Strategic Objective   | 108 |
| B. Program Management Requirements: Operating Expenses and Staffing                                 | 132 |
| Part IV. Status of Management Contract  |     |
| Special Concerns or Issues  | 133 |

**Part V. Special Issues**

|           |  |            |
|-----------|--|------------|
| <b>A.</b> | <b>Environmental Issues and Schedule</b>           | <b>134</b> |
| <b>B.</b> | <b>The Impact of Gender - Women in Development</b> | <b>135</b> |
| <b>C.</b> | <b>New Partnership Initiative</b>                  | <b>140</b> |

**Part VI. Tables and Charts**

|   |  |  |
|---|--|--|
| <b>Agency Table 1.</b>  | <b>All Resources</b>   |  |
| <b>Agency Table 2.</b>  | <b>Global Bureau Resources</b>                               |  |
| <b>Mission Table 1.</b>   | <b>Resource Requests by Project, FY 95-FY 98</b>             |  |
| <b>Mission Table 2.</b>   | <b>Resource Requests by Strategic Objective, FY 95-FY 98</b> |  |
| <b>Chart 1.1 through Chart 3.3. with development partners and time frames</b> |  |  |
| <b>(in SNAPGRAPHICS)</b>  |  |  |

**Annexes**

|   |  |
|---|--|
| <b>Strategic Objective Team Lists ( preliminary )</b> |  |
| <b>Performance Assessment Tables</b>                  |  |

## **Part I. Factors Affecting Program Performance in Ukraine**

### **1. Progress Toward the Transition**

The Government of Ukraine embarked on an ambitious economic reform program following the election of President Kuchma in mid-1994. Since then, there has been considerable progress mixed with significant setbacks. While President Kuchma's commitment to the reform program appears firm, support within the ranks of government has been uneven. The Parliament especially has often proved an obstacle to reform. The IMF, World Bank and other international financial institutions, along with USAID and other donors, are working hard to bolster support for reform, providing massive financial and technical assistance to advance the economic, democratic and social transitions. However, as long as the quality of life continues to deteriorate for Ukrainian citizens, maintaining political and popular will to see the reform process through will be a constant challenge.

Ukraine's economic transition shows substantial progress in some areas. While it may be premature to characterize the country's reform process as irreversible, it has progressed sufficiently far in the power sector, for example, that significant erosion is unlikely. Enterprise privatization and development, and fiscal and financial sector reforms have also taken important steps.

Power sector restructuring in Ukraine has progressed beyond that of any other nation in the former Soviet Union. With the demonopolization of generation and distribution, an independent regulator in place, and the opening of the wholesale electricity market at the beginning of April, Ukraine has made progress toward a wholly competitive, efficient power sector in a relatively short period of time. Next steps will include improvement in finance management and commercial operations of the newly corporated generation and distribution companies, and ultimately privatization. It is hoped that if the current pace of progress continues, Ukraine may achieve an independent, financially sustainable power sector over the next four years. This will be key to attaining the strategic objective of a more economically sustainable and environmentally sound energy sector. USAID and other donor support has been an important factor in power sector restructuring efforts so far. Continued support will be critical to assuring progress in the energy sector in the next few years.

Although enterprise privatization has moved more slowly than hoped, there is now reason for optimism that it will accelerate significantly. We have seen a gradual improvement in the enabling environment for mass privatization, and enough of the problems have been resolved that the number of companies being privatized continues to increase rapidly. Small-scale privatization is well on its way to completion by the spring of 1997. Increased transfer of state-owned assets to the private sector (which also includes modest land and housing privatization initiatives), is bolstered by World Bank loan conditionality specifying privatization targets for medium and large-scale enterprises.

Economic restructuring programs in areas such as **bank supervision and accounting, anti-monopoly and tax policy and administration** have made modest but undoubted progress. There is clear evidence that the GOU takes seriously the need to increase the soundness of fiscal policies and management practices, develop the legal underpinnings which will determine the "rules of the game" in the areas of bankruptcy and anti-monopoly, accelerate the development and growth of private enterprises, and achieve a more competitive and market-responsive private financial sector, especially to attract greater domestic and foreign investment. And equally important, there is clear interest now in the higher reaches of government in moving on structural policy changes which will give direction to the work which is being done in government ministries and at the National Bank of Ukraine to improve their technical abilities.

The new constitution currently being forged will have far-reaching consequences for Ukraine's future. **In June 1995, the Law on Power was enacted**, which among other things gave President Kuchma power to implement economic reform by decree, subject to parliamentary veto. As this law supersedes numerous provisions of the old constitution, it was agreed that it would serve as a temporary measure until a new post-Soviet constitution could be passed the following year. Different drafts of a new constitution have appeared since that time, and a vigorous debate on a new constitution is now underway in the Parliament.

While the ultimate contents, timeframe and venue of enactment of a **new constitution** are not yet certain and the final document may be somewhat unwieldy, its **enactment is critical to cementing Ukraine's democratic transition**. Furthermore, it is key to clarification of a number of important areas of law such as separation of powers and local government authority, and it should facilitate other legal reform, including a commercial code, laws on bankruptcy, criminal justice, elections and private property. Passage of a new constitution thus underpins AID's strategic objective of creating legal systems that better support democratic processes and market reforms. USAID's parliamentary development project has supported constitutional development in numerous ways, and USAID support for comprehensive legal reform will continue throughout the life of the program.

**Local governments will play an increasingly greater role in reinforcing democratic practices at the level most accessible to citizens**. Through the introduction of a variety of mechanisms such as more open budgeting, town meetings, citizen task forces, constituency outreach and local government watchdog groups, local governments are becoming the venue for the development of democratic leaders and governance. Groups like the Ukrainian Association of Cities now lobby the central government on issues ranging from the new constitution to local level policy to intergovernmental relations. Municipal governments are improving their financial management, while becoming more transparent and accountable to their citizens. Local public services are improving, with some generating profits for the first time. USAID's assistance in this area has met with considerable success, and we will continue these efforts with the overall objective of helping develop more effective, responsive and accountable local government.

Increased, better-informed citizens' participation in political and economic decision-making is essential to the development of a viable democracy in Ukraine. USAID's **independent media program** is enabling Ukrainian citizens to become better informed about current events in general, including issues related to economic reform. A daily television news program, a free-market economics program, and other informational programs are being produced independently and broadcast nationwide. An independent local TV station has been licensed, is developing private funding, and will serve as a flagship of an independent TV network. Independent local TV and radio stations are being supplied with high-quality programs and staff training, while a USAID-funded press center provides journalists with access to a wide range of resources.

**Popular support for reform will evaporate unless social benefits and services are maintained.** Improved sustainability of social benefits and services is therefore key to Ukraine's economic reform goals. In the period following independence, the quality of many social services, such as health care and housing maintenance, has deteriorated, and these services have become unaccessible to those most in need. The GOU must work to redefine the rates of the public and private sectors in providing social services. It must allow those who can afford to pay the real cost of these services to do so and to purchase them from the private sector. Non-governmental organizations must be developed as a source of assistance for the disabled, the elderly and other vulnerable groups. The GOU must target government social assistance to those most in need. This way, the overall budget burden of the social sector can be reduced.

Last year, with USAID support, the GOU introduced a **targeted means-tested subsidy for housing and utilities for the poor** just as IMF program-mandated price increases were initiated. It is no exaggeration to say that *without this effort Ukraine's economic reform program would have been in danger of complete derailment.* Instead, the program has been hailed as a major success and is likely to be extended to cover a broader range of services.

## **II. Political Developments Affecting Ukraine's Transition**

The pace of Ukrainian reform has been affected by Ukraine's relations with Russia. Fear of renewed Russian dominance, compounded by the resurgence of Russian Communism and the popularity of the Communist party candidate in the 1996 Russian presidential elections, have on the one hand increased wariness of reform as **Ukrainians try to avoid Russia's mistakes and forge their own way rather than rely solely on Western models.** On the other hand, concern about developments in Russia may be acting as a spur to push reform faster in order to increase Ukraine's economic strength and improve leverage with Russia.

**President Kuchma has tried to maintain momentum for economic and democratic reform** while the majority of the population continues to perceive their own situation getting worse and problems such as unpaid wages come to the political forefront. Despite the broad authority he gained with the Law on Power, Kuchma also has to contend with Parliament's

**constant attempts to derail the reform program.** While Kuchma has managed to keep the upper hand, Parliament has been able to stall major elements of the reform program. One prominent example is the introduction, three times, of laws to essentially prevent agro-industrial privatization. Although the President successfully used his veto power in each case, he has to date felt unable to issue a decree to speed this key facet of the privatization program.

On the U.S. side, interest in Ukraine on the part of Congress and the Administration, influenced by the strategic importance of a strong, independent Ukraine, and spurred on by the vocal and influential Ukrainian-American community, has made the USAID program in Ukraine the third largest in the Agency and subject to intense scrutiny.

## **12. Economic Developments Affecting Ukraine's Transition**

Ukraine is struggling to keep pace with a daunting economic stabilization and reform agenda. At the same time, it is deficient in capacity to manage and coordinate macroeconomic reform. As a result, there has been significant progress in terms of price and trade liberalization, currency stabilization, and reduced inflation and deficit, but there have also been periodic slippages in implementation. This has caused the IMF to delay program disbursements in several instances and to a brief lapse in the program this spring. The most recent program deviations appear to have been resolved satisfactorily with the recommendation of additional measures to reduce the risk of new slippages. It remains to be seen how the process of structural adjustment will evolve in the wake of financial stabilization, but donors remain firm in their commitment to help Ukraine make a successful transition.

**A major impetus for reform is Ukraine's need to finance energy imports to meet its enormous requirements, particularly natural gas and crude oil.** Agreement on debt rescheduling and deliveries of gas and oil has been reached with Russia and Turkmenistan, and state guarantees for energy purchases were largely removed. Ukraine must now focus on increasing production, efficiency, and prices and cost recovery, while decreasing subsidies to industrial users and households. Restructuring of the politically powerful coal sector will be needed to reverse production declines and increase the competitiveness of coal mines.

Also key to the country's rationalization of the energy sector is the work being done in conjunction with the G-7 to close the Chernobyl Nuclear Power Plant by 2000. Ukraine agreed to do this in a memorandum of understanding signed in December in exchange for commitments of significant donor resources. The U.S. has pledged support for two of the plan's four elements, increased energy efficiency and the construction of a new sarcophagus for the destroyed No. 4 reactor, and is also associated with the effort to mitigate the social impact of the plant's closure.

According to the IMF, Ukraine suffered steep declines in output and in real economic

**activity during much of 1995. Real GDP fell by about 23 percent in 1994 and by about 12 percent in 1995. Real wages of the population fell by 17 percent in 1994 but rose by almost 100 percent in 1995. Real expenditure on goods and services fell by 26 percent in 1994 and by about 5 percent in the first half of 1995. Gross investment fell by about 23 percent in 1994 and there was little recovery in capital expenditures in 1995. Exports picked up significantly in 1995, particularly to non-FSU industrialized countries (a 20 percent increase in volume), but slow progress on structural reforms has severely retarded growth of the emerging private sector. However, most estimates put the size of the informal economy at between 40 and 60 percent of GDP. Very low official unemployment statistics belie the fact that a significant proportion of workers are either on unpaid or involuntary leave or are only partially employed. Hidden unemployment affects at least a quarter of the workforce.**

**Progress has been strong on reducing inflation, which decreased from an annual rate of 10,000 percent in 1993 to 180 percent in 1995. The 1996 target is about 35 percent, which would include substantial administrative price increases for housing and utilities.**

**The decline in industrial production, 38 percent in 1994, registered a more modest 13 percent decline in 1995 due in part to such factors as the breakdown in the system of state orders and contracts, high taxes, a breakdown in inter-enterprise payments and increasing energy prices. Agricultural output fell significantly in 1994 and contracted slightly in 1995, despite important structural reforms in the agriculture sector. Factors affecting this decline include a lack of working capital to finance either the spring planting or autumn harvesting and the inability of farmers to use market mechanisms to obtain the necessary financing, both of which USAID programs address. Another important factor is price controls on agriculture output as well as informal restrictions on exports. One significant development was the establishment and promising start of an agriculture commodity exchange. However, the absence of adequate title registration and moratorium on the sale of land parcels pose problems.**

**In not only transforming Ukraine's economy to a market basis but also restoring economic health, the GOU must follow stringent macroeconomic policies and also institute substantial structural reform to develop the market basis of the economy. USAID is working at different levels on both of these tasks. At the policy level, we are bringing experienced senior advisors to work with top GOU ministers and the governor of the National Bank. USAID is also working on institution building which will lead to market-based structures being put in place in a range of areas. These include the energy sector, the legal infrastructure, fiscal (budget and tax), banking and central bank functions, and small business development. This two-pronged approach to assistance, at both the policy and the technical levels, is essential to ensuring that policies are supportive of economic reform and at the same time that the fundamental structures are being changed at the working level, and Ukrainian counterparts are becoming versed in western methods.**

#### **IV. Social Developments Affecting Ukraine's Transition**

**The continuing erosion in the quality of life for most Ukrainians, and especially the inability of the most vulnerable such as retirees and large families to cope, is a potential roadblock to reform. Faced with an unsustainable social protection system, the Government of Ukraine has made progress over the past year in increasing revenues and reducing and targeting social benefits. With USAID assistance, the housing subsidy program has protected over three million households from unaffordable price increases, netting GOU coffers about \$600 million in 1995 and producing an estimated \$1 billion in savings in 1996. Based on this success, the subsidy program will be extended to cover a broader range of services. USAID will continue to work with the GOU and with other donors on ways to further target social spending on those segments of the population who are most in need.**

Also driving reform is Ukraine's inability to finance improvements in such problems as **deteriorating infrastructure, inadequate health care systems, energy brown-outs, and lack of capacity and resources to deal with emergencies** such as a diphtheria epidemic and natural disasters such as last summer's flooding in Kharkiv that caused a major sewer system breakdown. However, the lack of consensus on how to address these problems, and in particular opposition from the Parliament to meaningful social reform, has made it all the more difficult for the country to get back on its feet. USAID programs are helping to show the way through pilot projects such as Ternopil's bus refurbishment and the health care financing effort. Activities such as these demonstrate local impact and can ultimately have a major nationwide effect through program replication.

#### **V. Factors Assisting or Impeding Overall Program Performance and Mission Response**

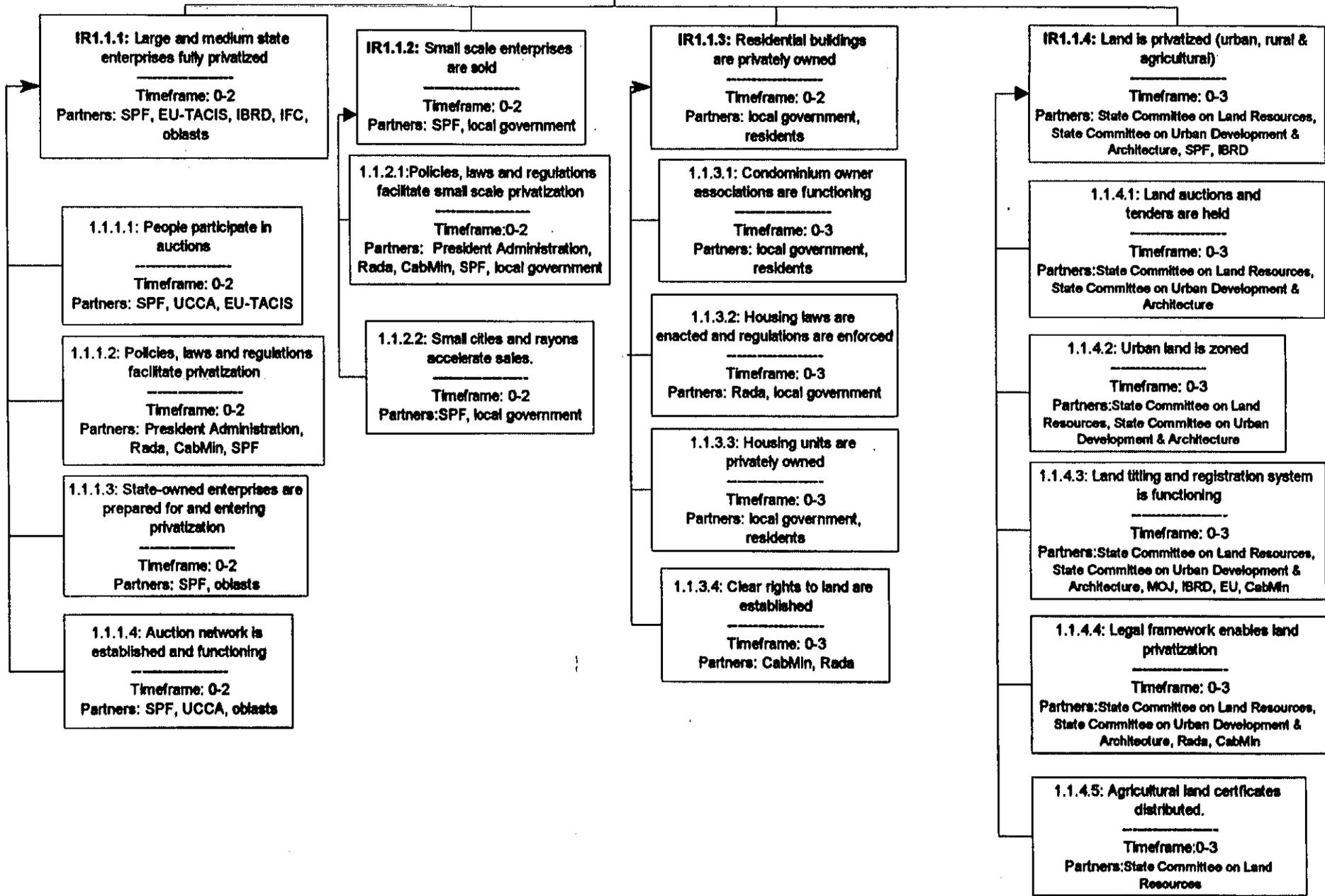
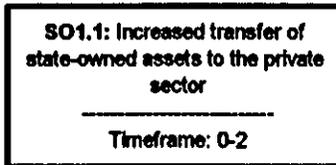
The following is a summary of the major factors impeding or assisting overall program performance and how the USAID program deals with them:

- **The GOU lacks a critical mass of reformers and needs to develop its capacity to manage reform. USAID focuses efforts on systemic problems and where prospects for success are greatest. Training and exchange programs are used strategically to promote the value and benefits of reform. USAID is funding advisors to assist GOU officials at all levels to increase their ability to move ahead with reform, and to the extent possible, USAID programs include training, transfer of skills and "Ukrainianization" of activities.**
- **The Parliament continues to constitute a roadblock to reform. The new constitution, development of which USAID has supported, will not result in a newly constituted legislative branch. In the interim, the President has derived extraordinary power from the Law on Power and has been able to effectively override Parliament on a number of key issues. The USAID Parliamentary Development Program is strengthening and increasing the effectiveness of Parliament.**

- **During this period of constitutional transition, President Kuchma has enjoyed increased powers and is using them fairly effectively to further reform. The U.S., IMF, World Bank and other major donors have responded with financial resources and political support such as state visits and have taken this opportunity to advocate aggressively for reform, such as in the privatization program.**
- **The GOU is committed to sheltering its citizens against the worst impact of the economic transition. USAID housing subsidy and humanitarian assistance programs have supported the GOU and helped them to demonstrate that people's welfare is a priority, thus sustaining popular support for reform.**
- **Democratization has bolstered support for reform by increasing participation, information flow, citizen empowerment and demonstrating that reform serves grassroots interests. USAID's programs build on democratic reforms by strengthening the capacity of local governments and non-government organizations to participate in the reform process and at the same time serve constituent interests.**

## **VI. Conclusion**

**Ukraine was slow to begin economic reforms and progress in implementing them has been uneven. Vested interests have yet to be overcome, consensus for reform is not widespread, and capacity to undertake it is thin. It is not likely that reform will speed up to any great extent. However, it appears that the Government is making substantial headway despite these and other constraints and that the international donors and financial institutions are committed to staying the course. The USAID program is playing a major role in enabling the transition at both the national and grassroots levels, with some significant progress to date.**



7a

## **Part II. Progress Toward Strategic Objective Results Framework and Results Report**

### **SO 1.1 Increased transfer of state owned assets to the private sector**

#### **I. Results Framework**

##### Transition Hypothesis/Underlying Rationale

The economy of Ukraine and the general welfare of its people no longer depend upon meeting production quotas defined by the State. They depend upon meeting market demand in an increasingly global, increasingly competitive market economy. Quality, quantity, price, distribution, payment terms and marketing (both knowledge of market demand and promotion) are the key variables that determine the success of any individual enterprise and, as the sum of many enterprises, the economy as a whole. Success in enterprise is tied to the quality of managerial decisions and, as a general rule, the closer a manager's interests are aligned with those of the enterprise, the better the decision making. One of the major problems of the centrally planned economy was that managers were not affected by the efficiency or profit performance of the enterprise. The real issue with the transfer of state assets to the private sector is to give control to entrepreneurs whose economic well being is directly tied to the effectiveness of those assets. The transfer of assets to the private sector as executed in Ukraine does not always translate into a change to more effective leadership any more than a turnover of Chrysler stock makes Chrysler Corporation any more effective. However, a change to entrepreneurial leadership cannot be effected while the State owns the assets.

Therefore, the transfer of State owned assets to the private sector is a necessary precondition to a change in leadership and at times they do occur simultaneously. The rule established between donors and the Government of Ukraine is that 70% private ownership is sufficient to allow entrepreneurial control and only those enterprises reaching the 70% mark are considered privatized. The transfer of State assets to the private sector is necessary to achieve the objectives of ENI Strategic Assistance Area I: Economic Restructuring.

The Mission is focussed on four major areas of privatization: Large and medium scale enterprises, small scale enterprises, residential buildings and land (urban, rural and agricultural.) The rationale for the focus on large and medium scale enterprises is the one explained above combined with the benefit to the State of divestiture or unprofitable enterprises, thus improving the State's fiscal position. The value of the focus on small scale enterprises is that they represent the fastest growing sector of the economy in both dollar volume and employment generation and yield immediate benefits to a public skeptical of

reform generally.

The focus on residential buildings helps the State reduce its social liability account while installing private mechanisms for assuming previous State responsibilities such as maintenance and care of common areas. The real value of private home ownership, however, may be its contribution to social stability and participation in local government. For the ordinary citizen, apartment ownership may also be his or her first real stake in the new market economy and the only source of savings for investment via mortgage. Urban land titles will open up a real estate market and allow mortgage finance. Privatizing rural land is occurring slowly. As an initial step five million land certificates will be distributed, entitling collective farm workers to private ownership of land parcels. Ukraine has tremendous agroindustrial potential and given the right scheme for private ownership of rural land, would attract significant foreign investment.

### Critical Assumptions

For there to be an increased transfer of state-owned assets to the private sector, certain requirements must be met. These are that: laws, policies and decrees are passed to facilitate large and medium privatization; local officials develop belief and expertise in privatization to advance the sales of small-scale objects; housing laws are enacted to encourage privatization of residences; and laws are changed to allow the establishment of a land market.

### Causal Linkages

The indicator for the strategic objective is private sector GDP as a percentage of total GDP. As the country's productive assets come under private control, the ratio will increase proportionately. There are four sets of intermediate results that will generate the increase: 1. Large and medium scale enterprises fully privatized; 2. Small-scale enterprises sold; 3. Residential buildings are privately owned; and, 4. Land is privatized (urban, rural & agricultural).

**IR 1.1.1: Large and medium scale enterprises are fully privatized.** Once complete, this will result in distributing ownership among private interests and making it possible for private enterprise to gain control of decision making for the use of productive assets. USAID and the World Bank set 70% private ownership as the benchmark for "fully privatized," because a company with less than 70% of its shares in private hands is unlikely to be free of State control. In determining whether this 70% threshold has been reached, it is important to consider all shares sold, by whatever means, including through closed subscriptions to company affiliates, through auctions for privatization certificates, compensation certificates or cash, or through other sales methods. USAID's prime focus has been and will continue to be on helping state enterprises to get corporatized and complete closed subscription, and then to have as many of their shares as possible sold quickly through auctions to the general public. There are four intermediate results necessary to the success of the auctions:

1. People participate in auctions by redeeming certificates for shares (IR 1.1.1.1). There were 52,000,000 privatization and 205,000,000 compensation certificates printed. The Mission is tracking the number actually picked up and invested of these.

2. Policies, laws and regulations facilitate privatization (IR 1.1.1.2). Over the past several years, Ukraine has gradually developed a policy and regulatory environment which is generally supportive of privatization - despite a Parliament-imposed legal structure which makes it very complex and difficult. There could still be many improvements which would make the process work more smoothly, but politics makes change difficult. Especially problematic is privatization of the key agro-industrial complex. Due to the chronic resistance of the Parliament, of many branch ministries and (frequently) of company managers to privatization, it is necessary constantly to defend what progress has been made against attack.

3. State-owned enterprises are prepared and entering privatization (IR 1.1.1.3). Coaxing companies into the corporatization and privatization pipeline has proven to be one of the main hurdles to reaching privatization targets. Resistance from managers who are afraid of losing control and the difficulty and expense of the process have been the main roadblocks. Though incentives for managers have improved somewhat, Ukraine has not wanted to follow the Russian model's generosity to company insiders. As a result of this, we can expect that it will be necessary to continue to devote substantial resources to working with companies at a regional level to bring them through the process.

4. The auction network is established and functioning (IR 1.1.1.4) USAID has committed to provide financial, human, and material resources to help the auction network support state enterprise prepare for privatization and manage the entire auction process, for both privatization and compensation certificates. The network is established and functioning, and must continue to be financed to play its key role.

**IR 1.1.2: Small-scale enterprises sold.** This will be measured by the number of enterprises sold by the State to private parties, including workers' cooperatives. Small enterprises show the most promise for closer control by entrepreneurs and faster growth in both GDP and jobs generated. As of May, 1996, slightly more than half of the small scale enterprises in Ukraine had been privatized and it is expected that small scale privatization could be 80% complete by May, 1997. Since it is assumed that a number of sales outlets in villages will continue in communal ownership, 80% represents virtually complete small scale privatization. There are two intermediate results required to continue the large volume of small enterprise sales needed to meet the goal of 80% completion by May, 1997:

1. Policies, laws and regulations facilitate privatization (IR 1.1.1.2/IR 1.1.2.1). This is the same result that appeared above in support of the auctions through mass privatization. If the current policies, laws and regulations remain largely unchanged, this would provide a basis for completing small scale privatization.

2. Small cities and rayons accelerate sales. Local governments control the sales of most of the small enterprises. They often lack the technical capability to manage the process and in some areas remain resistant to privatization of small enterprises. This is especially so in smaller cities and in the rural rayons, where the bulk of the State-owned small scale objects remain. To overcome this lack of technical ability and resistance, the Mission will increase focus on smaller cities and rayons.

**IR 1.1.3: Residential buildings are privately owned.** This refers to the fact that even if 100 percent of the individual apartments in a multi-family building are privatized, the "ownership" of the roof, stairwells, walls, lifts, wiring and, heating and electrical systems - as well as the maintenance of these items -- still rests with the state. The goal is to privatize all of these common areas as well and place them under the control of residents. Four intermediate results are required to accomplish private ownership of residential buildings:

1. Residents must form and operate a condominium association in order to take control of the common elements and own them on a pro-rata share basis (IR 1.1.3.1).
2. Housing laws must be enacted and enforced to codify the rights and responsibilities of the owner associations and the public and private parties with whom they contract for maintenance and management services (IR1.1.3.2).
3. To the extent that the rate of privatization of individual units is increased, the formation of condominiums is likely to increase as well, because more residents of buildings will have a vested ownership interest in improving the property (IR 1.1.3.3.).
4. The allocation of adjacent territory and decisions about the use of this land are essential to the full functioning of a condominium association. To the extent that this intermediate result is addressed by the USAID's land titling and registration program (see IR 1.1.4.3), the incentive to form condominiums and the decision-making power of condominiums will be enhanced (IR 1.1.3.4).

Progress in these respective areas will lay the foundation for private mortgage finance and property insurance industries in the future.

**IR 1.1.4: The privatization of land (urban, rural & agricultural).** This will strengthen real estate markets in urban areas and transform both urban and rural land into a more productive asset. Urban land must be zoned and titled in a manner that facilitates resale. The large, inefficient State farms must be restructured and/or broken up into viable, economic units and they must come under private control. Only when land is sold in a competitive market will it approach its maximum social and economic utility. There are five sets of intermediate results necessary to achieve IR 1.1.4.

1. Land auctions and tenders are held (IR 1.1.4.1). The auctions and tenders must take place to sell land.
2. Urban land is zoned (IR 1.1.4.2).
3. Land titling and registration system is functioning (IR 1.1.4.3). The systems for titling and registration (including zoning to define the limits on land use) facilitate the option of resale. If land cannot be resold, its level of productivity will stagnate at that achieved by the first owners.
4. Legal framework enables land privatization (IR 1.1.4.4). The legal framework will have to support the sale, titling and registration system, and resale options for privatization to achieve its true social and economic benefit to society.
5. Agricultural land certificates distributed (IR 1.1.4.5). Since privatization of agricultural land recognizes certain rights on the part of those who historically worked the land, those rights (in the form of certificates) must be distributed.

## **II. Overall Progress to Date**

### ***Mass Privatization***

The mass privatization program aimed at medium and large-scale enterprises, began in late 1994 after President Kuchma signed a decree to make its implementation possible. During 1995 the program encountered technical and political snags which slowed it down dramatically from original expectations. To assist the Government of Ukraine (GOU) in overcoming these obstacles, a joint effort was mounted by USAID, the World Bank and EU/TACIS. The result was a letter to Prime Minister Marchuk in September recommending a number of specific measures which the GOU should consider taking to speed up the privatization process. In the intervening months, many of the key measures proposed have been implemented by the GOU. While the privatization program is still complex, difficult and subject to setbacks, there is a general sense that the tide has turned and that success seems much more likely than it did six months ago. This is bolstered by President Kuchma's repeated expression of personal commitment to privatization, as well as by World Bank loan conditionality that requires specific privatization targets to be reached for the release of each tranche of the loan.

Results achieved to date include:

- **Auction network is established and functioning:** This Intermediate Result has been achieved. Twenty-seven auction centers operate throughout Ukraine and over 1,000 bid collection centers are open in local neighborhoods for citizens to offer certificates for shares.

- **State-owned enterprises are prepared for and entering privatization:** Progress toward this is picking up. The number of companies with shares entering the auction process has increased from an average of 114 a month from September-December, to 129 in January, 217 in February, 291 in March, 396 in April, and 400 in May. In the 16 auctions to date, 2,552 state enterprises have had their shares offered.
- **Policies, laws, and regulations facilitate privatization:** The GOU has taken a variety of measures to deal with many of the key problems constraining a speedy and transparent privatization process, which has picked up notably. For example, the nominal value rule has been abolished for Compensation Certificate auctions; modest improvements in incentives for management and workers of enterprises have been instituted; the President has vetoed legislation three times which would have greatly complicated and slowed agricultural privatization; burdensome pre-privatization audit requirements have been removed; and the State Property Fund has greatly improved control over its regional affiliates and its internal information flows.
- **People participate in auctions:** The first step toward achieving this is for people to pick up their privatization and compensation certificates. At this point, 64% of the population has either picked up their privatization certificates or opened a privatization account. In addition, approximately 6.1 million of a total of 205 million compensation certificates had been picked up by the beginning of May after ten weeks' availability.

A key issue impeding mass privatization is the lack of simple, quick procedures for selling companies in the agro-industrial complex. Current procedures for agro-industrial sales can take up to 18 months and require sales of a substantial number of shares to an ill-defined group of suppliers. Approximately half of the 8,000 firms slated for certificate privatization fall within this category. Although the President has vetoed potentially disastrous legislation three times, he has been politically unable to take the next step and issue a decree which would provide real speed and clarity to the process. It is not clear if or when he might do so. Short of a decree, the donors will need to continue to work with the GOU to ensure a clear political directive to encourage speedy agro-industrial privatization, and re-classify as many firms as possible out of the sector.

Although the GOU has made a great deal of progress in improving the environment for privatization, the Parliament continues to be unpredictable and generally hostile to reform. For example, a proposed law has just passed its second reading in the Parliament which would effectively constitute a moratorium on medium and large-scale privatization. The proposed law is a direct challenge to the President. If enacted, it would place so many roadblocks in the way of progress that privatization would probably stop for several months, only to continue at a dramatically slowed pace. Though the executive branch has some power to limit and deflect such initiatives, it should be expected that the Parliament will continue to complicate the picture and make success more difficult to achieve.

Finally, a strategy for the future of the Ukrainian Center for Certificate Auctions, the donor-funded, quasi-independent, non-profit entity set up to help manage the auction process, needs to be developed and implemented.

### *Small-Scale Privatization*

Small-scale privatization, which transfers a locality's retail trade sector into private hands, plays a crucial role in the development of a market economy. Ukraine's program began with a pilot project in 1992 and has since expanded to 21 cities throughout Ukraine. Since mid-1995 the program has progressed rapidly. Over 27,000 small companies of the estimated 40,000-45,000 candidates are now privately owned.

Specific results achieved to date include:

- **Small cities and raions accelerate sales:** As small scale privatization in most of the largest cities is well underway, the program is shifting emphasis toward smaller cities and raions. To date, auctions have been held in 22 of the largest cities of Ukraine and recently, auctions took place in 11 smaller cities. Also, seminars have been held in 13 oblasts, to which regional administrators were invited to learn about small scale privatization. The proposed modification of the grant for the IFC would continue and intensify this emphasis on smaller cities and regions.
- **Policies, laws and regulations facilitate privatization:** In May, the Rada passed a new law on small scale privatization which lifted the burdensome requirement for pre-privatization audits. Though the law does simplify and ease the process in some ways, other provisions in it will make the sales process somewhat more difficult. USAID has been deeply involved with helping make the current legal and regulatory environment as supportive of small scale privatization as it is, and will continue to provide advice to the GOU to ensure that it remains so.
- **Small-scale state enterprises are sold:** Over 27,000 of Ukraine's estimated 40,000-45,000 small-scale enterprises have been sold as of April 1996.

Key issues facing the small-scale privatization program include technical and political snags that are slowing it down from original expectations. For example, many small-scale privatization candidates are leased to employees, and existing legislation protects such leased entities from privatization. In response, USAID is helping the GOU to implement a series of incentive programs to encourage workers to buy the enterprises outright or give them up for privatization. Furthermore, certain factors in the recently passed law on small-scale privatization will cause delays in the process. USAID is working to provide policy, legal and regulatory advice on this issue to the GOU to ensure the successful completion of the small-scale privatization program. Likewise, a donors' letter was recently sent to the GOU to explain how to avoid the negative impact of re-indexation of fixed assets of state-owned enterprises prior to privatization.

## *Housing Privatization*

The problem of a heavily subsidized but inadequately maintained housing stock leaves virtually no Ukrainian citizen untouched. Most households are now paying 60 percent of the real cost of providing maintenance and communal services, up from 4 percent a year ago. But, in a USAID-sponsored survey, more than two-thirds of those who responded expressed dissatisfaction with the quality of these state supplied services. Common areas belong to everyone, and therefore to no one. Capital investment in the housing stock is minimal and new residential construction declines year after year. Meanwhile, the privatization rate remains at a fairly modest 34 percent because housing is not viewed as an asset or investment.

Privatization of housing ownership, management and maintenance is well underway in 16 localities and is expected to extend to 50 localities by the end of September 1996. So far, more than 21,700 units are being operated under private management nationwide. In the area of homeowner condominium associations, more than a dozen buildings totaling more than 500 units have been registered. The groundwork for the national roll-out of the condominium program has been completed. This has become all the more important since the passage of a national condominium decree in July 1995 mandating the formation of homeowner associations in which two or more units have been privatized. A housing policy and national housing code are being developed, but passage will likely depend upon passage of the Constitution and a civil code.

### *Specific results achieved to date include:*

- Twelve condominium owner associations are functioning and fifty others are in various stages of formation.
- To supplement the existing "how-to" manuals for city officials on how to implement a private maintenance contract and set up a condominium program, a manual on the operations of homeowner associations was written, printed and distributed to residents. A separate budget handbook and registration pamphlet are being prepared. A flyer for mass distribution is nearly completed.
- Housing units are privately owned: One third of Ukrainian households have exercised the option to privatize their units.
- Housing laws are enacted and regulations are enforced: USAID has provided substantive commentary on a number of key pieces of legislation including housing portions of the draft constitution, an update of the July 1995 Cabinet of Ministers decree, a newly proposed Presidential decree to amend discrepancies in existing laws on housing privatization, and a model set of condominium by-laws.
- Outreach to city officials continues. On February 28, a regional conference on the

"nuts and bolts" of how to implement housing reform programs was held in Kiev. More than 140 representative from the five central oblasts of Ukraine attended. Follow-up technical assistance is being offered to participants. An additional conference for the five eastern oblasts was held the week of April 16. Conference activities included a tour of the condominiums and private maintenance contracts currently operating in Kharkiv. On March 8, a Letter of Agreement was signed with the Donetsk Oblast administration at a public ceremony covered extensively by the regional press. The oblast has set up a Housing Reform Unit and agreed to "deliver" at least six cities into the condominium and private maintenance programs in what is hoped to be a model for other oblasts. Local officials in more than 35 cities have signed or are in the process of signing letters of public commitment to implement the condominium and private maintenance programs. Technical assistance to enable city officials country-wide to adopt private maintenance contracting practices and condominium registration procedures is provided on an ongoing basis upon request by local officials.

- Clear rights to land are established: The newly functioning land titling and registration system will assist in the allocation of territory among condominiums.

Key issues that remain to be resolved include how to preserve progress to date and pave the way for achievement of program goals in the face of budget cuts that have forced premature close-out of the program. Steps being taken include a more rapid "Ukrainianization" of the program. Rather than walk away from past investment in the infrastructure of this program, efforts are underway to transfer essential program functions and to work with Ukrainian individuals and organizations so that they are prepared to accept these new responsibilities.

A major goal of the housing privatization program for the future is the coupling of the condominium formation component and the privatization of maintenance component. Thus far, private maintenance has been carried out by municipalities contracting out directly with private companies for maintenance of the municipal housing stock. This is a necessary transition until the stage is reached at which there are enough condominium associations to support a budding private maintenance and management industry and enough private maintenance providers to provide alternatives to condominium associations.

Finally, there is the challenge of enterprise housing. It is precisely those enterprises that badly need to divest their housing stock that have been least able to pay the employees that live in that housing. Both enterprises and residents will likely have difficulty meeting operating expenses and making needed capital repairs. Enterprise divestiture of housing stock is a top priority for several reasons. First, it is a drain on the resources of the state enterprises as they re-tool to compete in their respective industries. Freeing them of their housing responsibilities would give a badly-needed push to Ukraine's mass privatization efforts. Second, some portion of this housing stock is badly deteriorated, as some enterprises were unable to meet payroll much less continue to invest resources in their housing inventory. Divestment of this inventory will enable at least some of it to be

salvaged and renovated so that it will continue to be a viable part of the housing stock. Third, enterprise housing may provide a prime opportunity to demonstrate the coupling of homeowner associations with private maintenance and management companies.

### *Land Privatization*

Ownership of land and use of land are key issues and opportunities in Ukraine's economic transition. For a number of Ukrainian policy-makers land reform is regarded today as a top priority for the country for both economic and political reasons. Important preliminary steps have been made by the executive branch, but most of the work to privatize both urban and agricultural land lies ahead. At the same time, people at the grass roots level and the private sector have started to express their desire to be real owners of the land and to have the legal rights to it, including buying and selling, mortgaging and leasing.

Specific results achieved to date include:

- Over three thousand agricultural land certificates have been distributed in three pilot collective farms which were restructured into Joint Stock Companies.
- Legal framework enables land privatization: The President of Ukraine has issued a decree "On the privatization and lease of non-agricultural land for business activities" which was drafted with USAID assistance based on the experience gained from pilot projects. The decree enabled cities to start privatizing urban land. Three draft laws furthering land privatization and land markets development have been developed together with the executive branch for submission to the Parliament.
- Land titling and registration system is functioning: Procedures for titling and registration of land rights have been developed, tested and implemented and are ready for replication throughout Ukraine.
- Urban land is zoned: Zoning procedures have been developed and implemented in Chernihiv, the first city to do so in the former Soviet Union, and are being applied in several cities.
- Twenty-five land auctions and tenders have been held.
- Urban, rural and agricultural land is privatized: Competitive privatization of urban land parcels has been implemented in four cities and is being replicated throughout Ukraine. The Agricultural Land Privatization Project is testing procedures to privatize agricultural land and non-land assets of collective farms in two oblasts.

Key issues facing the GOU include the opposition of the Parliament to the efforts of the executive branch to continue carrying out land reform; lack of appropriately trained staff at the local government level to undertake active measures to speed up land privatization; and

people's lack of information on the benefits of land privatization and how it is carried out.  
Strategic Objective 1.1: Increased Transfer of State-Owned Assets to the Private Sector

### **III. ENI's Significant Contributions**

#### *Mass Privatization*

The United States government is the principal source of funding, technical assistance and training for implementing Ukraine's mass privatization program. Together with the other donor organizations such as the World Bank, the British Know How Fund, EU/TACIS and the EBRD, USAID is having a significant impact on the mass privatization process in Ukraine.

Implementation of the program and extensive USAID funding began in late 1994 when privatization became legally possible. USAID set up the infrastructure, procedures, and materials necessary to implement this ambitious program. Forty-eight million privatization certificates were printed and air-freighted to Kiev; a nationwide distribution center was established; and an auction network was created, with 27 fully equipped and staffed branch offices in every region of the country to handle the auction process through which every citizen of Ukraine can bid their certificates and obtain shares of any company that is being auctioned.

USAID also plays a key role in the multi-donor effort to increase the speed and transparency of the privatization process, and is largely responsible for the identification of measures the GOU could take to improve the program. This effort has resulted in a tripling of the number of enterprises auctioned each month. Current USAID funding finances and provides technical assistance to: (1) operate a nationwide network of auction centers and bid collection centers; (2) prepare state enterprises for auction; (3) calculate and disseminate auction results; (4) advise the State Property Fund and its regional affiliates on a wide range of issues regarding improving the implementation of the certificate privatization program; and (5) inform the public about privatization and market reform and encourage them to participate in the process through a national public information campaign. Over the past 15 months, the certificate privatization program has, with USAID's support, become the prime method of privatizing medium and large-scale state enterprises in Ukraine. This method ensures that privatization is carried out in the quickest and, particularly important, the most transparent way, providing an opportunity to every citizen of Ukraine to participate in the process of transfer of state-owned assets into private hands.

#### *Small-Scale Privatization*

USAID technical assistance in small-scale privatization includes (1) deploying privatization teams to assist city officials in developing privatization programs and enabling legislation; (2) training privatization officials; (3) preparing enterprises to be privatized to create a "privatization pipeline"; (4) conducting a public information campaign to reach potential

participants, the general public and other stakeholders in the privatization process; (5) organizing and executing a system of open auctions in selected cities and developing, producing and distributing Privatization Manuals with which cities can design their own small-scale privatization programs; and (6) providing legal and policy development support to the GOU and local government officials on small-scale privatization.

Technical assistance teams are currently deployed in 21 large cities, although the assistance they provide goes beyond the select geographic scope, as it is the premier source of outside guidance for the nation-wide program. USAID-funded cities have privatized 6,353 small enterprises, including 804 enterprises through 183 competitive auctions, 5,300 objects through leased and state-owned enterprises employee buyouts, and 248 through tender. Most USAID-funded cities have privatized between 50-90% of available small-scale objects. USAID technical assistance has resulted in the implementation of incentive schemes to speed up privatization of leased enterprises by encouraging employee-leaseholders to buy out their enterprises or give them up for privatization through auctions. With USAID funding, the retail sectors in nine large cities have already privatized a "critical mass", i.e., over 80% of retail businesses.

### *Housing Privatization*

USAID's housing privatization program integrates national and local efforts to encourage the private ownership of housing units and to improve the delivery of maintenance and communal services. This is accomplished by working on national policy issues with key Ukrainian counterparts, while undertaking local projects to demonstrate ways to carry out reform.

USAID is supporting: (1) the development of market-based private housing through the establishment of homeowner associations; (2) conversion from a system in which inadequate maintenance is carried out by monopolistic state entities to one in which private providers of maintenance services compete for management contracts and, as a result, are responsive to resident needs; (3) provision of expert legal advice at the national level to assist in crafting national laws and policies that facilitate the development of private real estate markets; (4) training for city officials, homeowners, owners of small businesses that provide maintenance services, and others with a stake in implementing market reforms; and, (5) training for Ukrainian trainers who will conduct outreach and public information programs independent of USAID assistance.

### *Land Privatization*

USAID provides technical assistance to help the GOU implement new policy directions as they develop. USAID is supporting national legislative reform through technical assistance to the GOU to develop the legal and regulatory framework for land privatization and land market creation, and local demonstration projects providing technical assistance to cities and collective farms for designing and implementing pilot urban land auctions, tenders, zoning

projects, titling and registration pilot projects, and agricultural land privatization projects.  
Strategic Objective 1.1: Increased Transfer of State-Owned Assets to the Private Sector

#### **IV. Expected Progress in 1997 and 1998**

##### *Mass Privatization*

- Continue the current pace of privatization by assisting the GOU to overcome administrative, technical and political impediments.
- Fully privatize 6,500 medium and large-scale enterprises by the end of 1997, reaching a total of 8,000 in 1998.

##### *Small-Scale Privatization*

- Complete the privatization of approximately 35,000 small enterprises by spring 1997 by continuing to assist local oblasts and cities to fill the privatization pipeline and expanding to new cities and Crimea.
- Assist the GOU to overcome technical and political impediments to accelerating and supporting the small-scale privatization program.

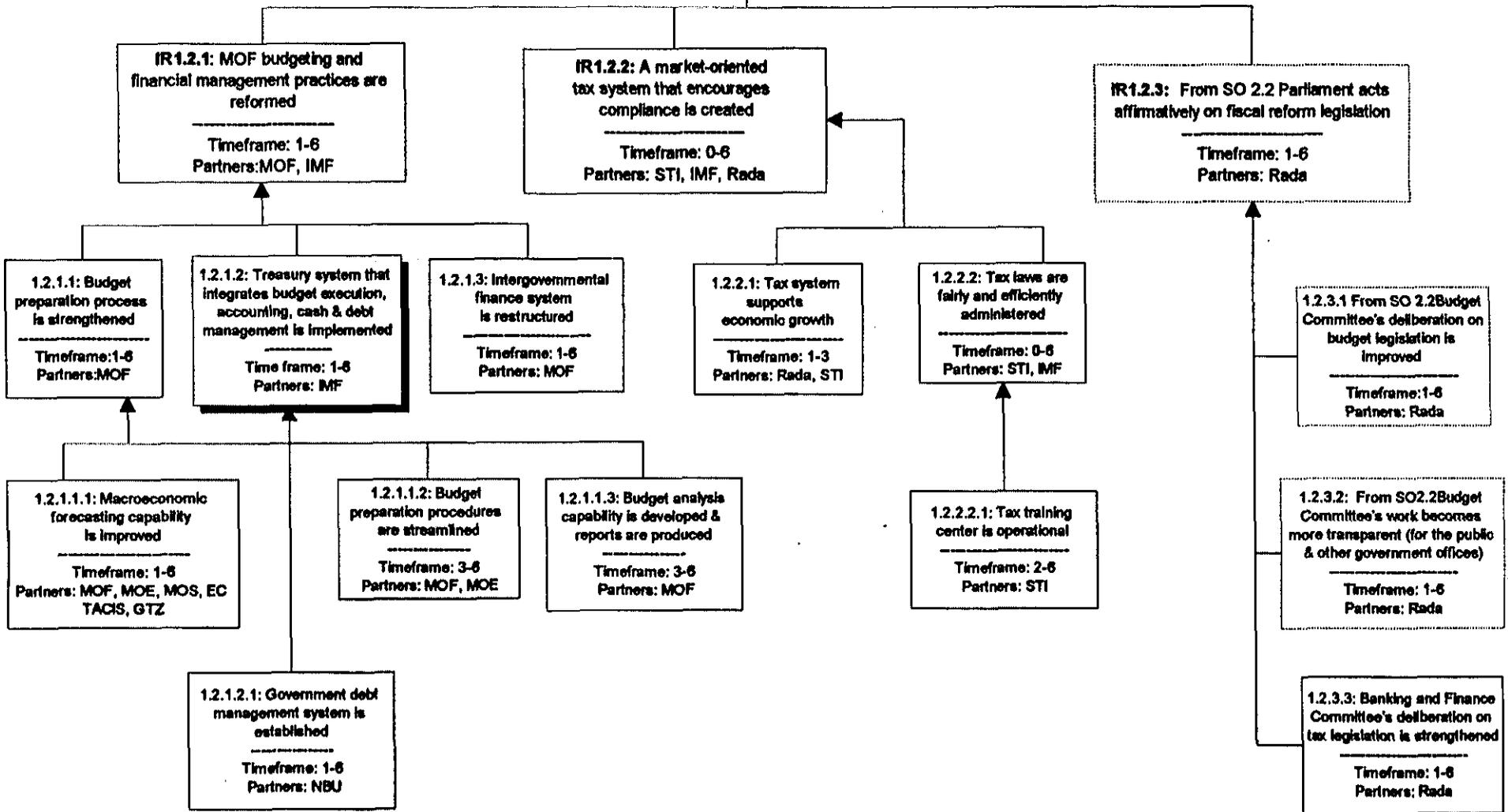
##### *Housing Privatization*

- Rapid "Ukrainianization" of the program through trade associations, public interest groups, and training institutes.
- Increased public awareness of the condominium program. To accomplish this the goal is to distribute 500,000 flyers and 1,000 homeowner association operation manuals, and tap into the regional network of the USAID public information program.
- Development of a series of demonstration projects in Lviv and elsewhere in which metering and better quality and availability of water and other utilities is provided as an incentive to form a condominium association. This will be carried out in cooperation with the USAID environmental and energy efficiency programs.
- Spreading of condominiums and private maintenance to other portions of the housing stock including divestiture of housing currently owned and managed by state enterprises (companies, factories, and other state institutions). This will be part of a broader effort within the Office of Privatization to re-structure former state-owned enterprises, which will start in the spring of 1997.
- Continued assistance in the form of expert commentary on the housing codex and related pieces of housing and land legislation.

### *Land Privatization*

- Ukrainian cities will hold up to 75 land auctions/tenders and 10 cities will have a routine auction process and permanent auction staff.
- Five cities will adopt land use legislation (zoning ordinances).
- A National Land Titling and Registration system will be approved by the GOU and up to 115 cities will open titling and registration offices.
- Legislation based on the market-oriented principles contained in the three draft laws Land Code, Law on Land Titling and Registration and Law on Territorial Planning will be passed in both the legislative and executive branches of the GOU.
- The GOU will begin to privatize the land on which enterprises and condominiums are located.
- A land taxation system will be designed by the GOU and submitted to the Ukrainian Parliament.
- Five million members of collective farms will receive land certificates which constitute their rights of private ownership on agricultural land parcels.
- Procedures for agricultural land privatization will be replicated throughout Ukraine.
- Officials from 25 oblast governments will be trained on the issues of land privatization.
- Land mortgage procedures will be developed, tested and adopted by banks for nationwide use in Ukraine.

**SO1.2: Increased soundness of fiscal policies and fiscal management practices**  
 Timeframe: 0-6



**Critical assumptions:**

1. GOU supports budget and tax reform policies
2. NBU continues restrictive monetary policy
3. Privatization continues as projected
4. Budget outcomes are not distorted by unexpected exogenous shocks

2/a

## **SO 1.2 Increased soundness of fiscal policies and fiscal management practices**

### **I. Results Frameworks**

#### Transition Hypothesis/Underlying Rationale

USAID's program is designed to aid in the development of the fiscal policy and management infrastructure which is essential for the growth of a market economy. Elements of this include sound budgeting and financial management practices, where macroeconomic trends are reliably forecast, revenues accurately estimated and collected, and expenditures efficiently planned and executed. Also necessary is a market-oriented tax system that is fair and encourages voluntary compliance while supporting economic growth. Achievement of these requires skilled executive management of fiscal policy, usually through a ministry of finance. It also demands a parliament that acts affirmatively on budget and tax reform legislation.

Under the central planning system functioning before independence, none of these conditions existed to any significant degree. The budget was dictated by the central plan. All economic entities belonged to the state, which collected revenues directly from the bank accounts of state-owned enterprises and fed funds to be expended into their expenditure accounts. Furthermore, the Ministry of Finance (MOF) was traditionally a weak institution, far different from similar institutions in Western countries. Although nominally responsible for preparing the budget, in practice it was largely a bookkeeping operation, with economic policy decisions made by the central planning organization, Gosplan. And, of course, the legislative organs were a rubber stamp for the central plan.

After independence, some of the former Soviet republics combined the central planning and finance operations into a single ministry. In Ukraine, however, they remained separate, and the Ministry of Economy (MOE) became the successor to Gosplan. On paper, the Ministry of Finance closely resembles its Western prototypes, with departments responsible for budget, treasury operations, tax policy, tax administration, customs, external and internal debt, and audit and control. In actuality, it has yet to grow into the role assigned to such institutions in a market economy.

Development of the market economy is further hindered by the persistence of attitudes and processes carried over from the central planning system. These include a disinclination to take initiative and a tendency to insist that all decisions come from a central authority. Another impediment which particularly affects fiscal policy and management is the tendency to treat all data as secret and thus to be guarded closely and not shared even within ministries, much less between them, or with outside advisors.

Nonetheless, there is no question that a market economy requires the performance of the

fiscal policy and management functions of a competent ministry of finance, or its equivalent (i.e., the basic functions are performed by more than one entity and coordinated, as in the U.S. government), and a responsible legislature. Sound budgeting and financial management practices are necessary to ensure the efficient use of those resources retained by the government for essential public purposes, such as national defense, education and health, environmental protection and a social safety. A market-oriented tax system that encourages voluntary compliance should provide the resources needed by the government to achieve these public purposes without placing excessive or unfair burdens on particular classes of taxpayers, such as private enterprises, and thus discouraging economic activity. A Parliament that is well informed and adequately supported should be able to act responsibly and effectively on vital fiscal reform legislation.

### Critical Assumptions

Success in achieving SO 1.2 depends on several critical assumptions.

1. The Government of Ukraine (GOU) supports budget and tax reform policies. The most vital need is support for fiscal reform at the top policy levels from which the impetus for action must come. In the past, such support has been problematic.
2. GOU continues restrictive monetary policy. Rampant inflation, fueled largely by excessive money creation, made any efforts at fiscal management futile in the first years after independence. Imposition of tighter and more responsible monetary policy has ameliorated, though not yet wholly cured, this problem. Maintenance of such policies is essential for the accomplishment of fiscal reforms, but there is no guarantee that a new National Bank of Ukraine (NBU) administration would follow the same policies. Nor is the independence of the NBU as yet guaranteed.
3. Privatization continues as projected or accelerates. While privatization provides the GOU with some revenue in the short term, its main benefit is to alleviate strains on the expenditure side of the budget by reducing the amount of subsidies paid by the government to maintain inefficient and unprofitable government enterprises. Ideally, it also provides a means of helping promising enterprises to reconstitute themselves and prosper in the private economy, which also turns them into healthy taxpayers. Should a new administration, or the current one, succumb to constant pressures to prop up failing enterprises in order to preserve jobs, then fiscal reform would be far more difficult.
4. Budget outcomes are not distorted by unexpected exogenous shocks. The Mission strategy cannot anticipate unusual but possible negative shocks to the economy, such as another Chernobyl-type disaster or a jump in international oil prices.

### Causal Linkages

Since the justification for increasing the soundness of fiscal policies and fiscal management practices is to create the fiscal infrastructure necessary for a market economy, the mission has focused on actions needed to improve efficiency and confine the activities and resource consumption of the government to essential public purposes.

Three intermediate results are necessary and sufficient to accomplish this: IR1.2.1 MOF budgeting and financial management practices are reformed; IR1.2.2 A market-oriented tax system that encourages compliance is created; and IR1.2.3 Parliament acts effectively on budget and tax reform legislation.

There are three Intermediate Results required to reform MOF budgeting and fiscal management practices:

IR1.2.1.1 Strengthening the budget preparation process, consists of improving macroeconomic forecasting capability; streamlining budget preparation procedures by providing clearer guidance and funding targets to ministries in defining priorities and developing their budget requests; and doing budget analysis to improve economy and efficiency in major areas of expenditure. IR1.2.1.2 Implementing a treasury system that integrates budget execution, accounting, and cash and debt management, is under the control of the IMF, as is a related part of the budget preparation piece, which requires the budget to meet IMF standards for classification and comprehensiveness. IR1.2.1.3 Restructuring of the intergovernmental finance system, is needed both to control central government expenditures and to strengthen the autonomy and accountability of local government.

The second element of the program is the creation of a market-oriented tax system that encourages compliance. IR1.2.2.1 Tax system supports economic growth, is being promoted through the development of single tax code for Ukraine covering major areas of tax law found in most Western countries: corporate and personal income tax, value-added tax (VAT), excise taxes and real property tax. IR1.2.2.2 Tax laws are fairly and efficiently administered, involves the development of a tax administration system appropriate to a market economy, consisting of a broader range of enforcement mechanisms, taxpayer services and other incentives for voluntary compliance with tax laws, and establishment of a training center to instill the new laws and techniques.

The third element of the program is a parliament which acts affirmatively on budget and tax reform legislation. IRs 1.2.3.1 and 1.2.3.3 would improve the deliberations of the key Budget Commission and Banking and Finance Commission of the Parliament, by providing better information and analysis of the legislation within their jurisdictions. IR1.2.3.2 would make Budget Commission work more transparent, by giving all public officials affected by its actions access to its legislative deliberations.

## **II. Overall Progress to Date**

The development of a market economy in Ukraine requires fundamental changes in the

approach to government taxation and expenditure from those employed under the former central planning system. The tax system must be restructured to encourage economic activity and taxpayer compliance, and also to ensure fairness and consistent application. Modern techniques of macroeconomic forecasting and budget preparation are needed, along with budget analysis to promote efficient use of resources. In order for market-oriented reforms to succeed, the Ministry of Finance (MOF) must develop the capacity to carry out its budget and tax responsibilities effectively and to function as the principal economic policy arm of the Government of Ukraine, along the lines of finance ministries in OECD countries.

Technical assistance under this strategic objective aims to make the reformed fiscal processes more comprehensive, systematic and transparent, so that informed policy level decisions will be made and implemented and the implications of these decisions will be clear to all. Under the reform-minded administration of President Kuchma, Ukraine is moving to strengthen its fiscal sector and the institutions involved with it, including the Ministry of Finance (MOF), Ministry of Economy (MOE), relevant committees of the Parliament and units of local government. Over the past year, modest progress was made in efforts to institute macroeconomic forecasting, reform intergovernmental finance, improve tax law, policy and administration, and gain tighter control over the budget in order to reduce budget deficits and meet other fiscal targets set by the IMF as a condition for continuing to receive financial assistance. Regular coordination meetings have been instituted with other donor organizations involved in fiscal reform activities (World Bank, IMF, EU/TACIS, German Technical Assistance, Soros-Asland Group) and counterparts from the Ministries of Finance, Economy, and Statistics and from the National Bank of Ukraine.

Results achieved to date include:

- **MOF budgeting and financial management practices are reformed:** A Budget Policy and Macroeconomic Analysis (BPMA) unit has been created within the Main Budget Department of the Ministry of Finance, qualified staff have been hired, and computers and related equipment supplied. Monthly budget reports on major revenue and expenditure items are issued and widely circulated within and outside of the Ministry of Finance. Electronic databases going back to 1992 have been established, and staff are being trained to use them in the budget process.
- **Macroeconomic forecasting capability is improved:** Staff of the MOF and MOE are being trained in market economics, computer techniques, fiscal modeling and macroeconomic forecasting. Efforts are underway to obtain necessary data from the Ministry of Economy and other sources, and staff are working with advisors to develop macroeconomic forecasting
- **Intergovernmental finance system is restructured:** An intergovernmental fiscal model has been developed for use in analyzing different revenue and expenditure arrangements between central and local governments, and staff are being trained to utilize and maintain this model. Training in estimating and monitoring local

government revenues and expenditures has also been provided. The Ukrainian Association of Cities (UAC), modeled after the U.S. League of Cities, is lobbying Parliament for cities to obtain the ability to raise revenue from local sources and to make expenditure decisions.

- **A market-oriented tax system that encourages compliance is created:** A Parliamentary Working Group, with members of the Banking and Finance Committee and representatives of the State Tax Inspectorate and private sector, has been established and is working to modernize the major tax laws (VAT, personal and corporate income tax, excise taxes and administrative provisions) and incorporate them within a single, consistent tax code. Assistance in tax policy, legislative drafting and estimating the revenue impact of tax law changes is being provided.
- **Tax laws are fairly and efficiently administered:** Training has been provided to officials of the State Tax Inspectorate of the Ministry of Finance in the areas of tax collection procedures, tax law enforcement, audit and internal control mechanisms. Government-wide taxpayer identification numbers and an electronic master file are being created. A National Training Center for tax collection officials has been established to provide expanded training capability.

Key impediments to progress toward achieving this strategic objective include: (1) low government salaries and lack of computer equipment and other material support; (2) the remnants of a central planning system that discouraged initiative, delegation of authority and acceptance of change. Moreover, the central planning agency (now the Ministry of Economy) had greater power and attracted better talent than the Ministry of Finance, which was essentially an administrative or "bookkeeping" agency, thus making it harder to build the latter into a Western-style finance ministry; (3) the absence of key statistical data collected by market economies, poor data quality, and a tradition of withholding rather than sharing data between - and even within - ministries, making it difficult to develop econometric models and other modern budgeting tools; (4) tax laws that are often poorly drafted, contradictory, lacking a regulatory framework for implementation, and are perceived as unfair, discouraging capital from emerging from the underground economy. Disincentives to investment through tax treatment need to be addressed through substantive legislative changes, e.g., simplify and liberalize investment and cost recovery systems, bring VAT law and administration in line with Western European standards, change enterprise profit tax basis, lower payroll and personal tax rates; (5) serious impediments to tax collection, including lack of a system for individual taxpayers, lack of civil penalties for tax law violations, and lack of specialization by tax enforcement officials; (6) a system of intergovernmental transfers which does not encourage economy and efficiency of local government, because the central government funds the difference between projected local expenditures and revenues. Local government officials lack training in public finance and administration, and management.

### **III. ENI's Significant Contributions**

Since January 1995, a USAID-funded project has provided tools and training to Ministry of Finance staff involved in central government budgeting, macroeconomic forecasting and intergovernmental fiscal relations. Assistance provided includes development of computer models for estimating and analyzing alternative financing arrangements between central and local governments, development of databases and time series to support these models and strengthen the budget formulation process, and over 2,000 person-hours of training for government officials in economics and public finance. In addition, the project has advised committees of parliament on tax legislation and helped the Ministry of Finance and Ministry of Economy to develop macroeconomic forecasts as a guide to budget formulation. Under USAID funding, the U.S. Treasury has provided advisors to assist with tax collection procedures, tax law enforcement, internal control mechanisms and establishment of a training school for central and local government tax collection officials from all areas of Ukraine. More recently, the U.S. Treasury has also provided advisors to assist the Parliamentary Working Group with the tax law reform project and an advisor at the National Bank of Ukraine to work on government securities issuance. In addition, another USAID-funded project assists the Budget Committee in Parliament by making recommendations to the Committee to increase the detail of the national budget and increase the transparency of the process of creating and adopting the national budget.

USAID's current assistance focuses on: (1) improving overall tax law, policy and administration; (2) developing tools for macroeconomic analysis and budget analysis and reporting; and, (3) formulating alternative approaches to intergovernmental finances. In all of these activities, emphasis is placed on working with local counterparts to ensure that skills are transferred and work products are appropriate to the Ukrainian situation.

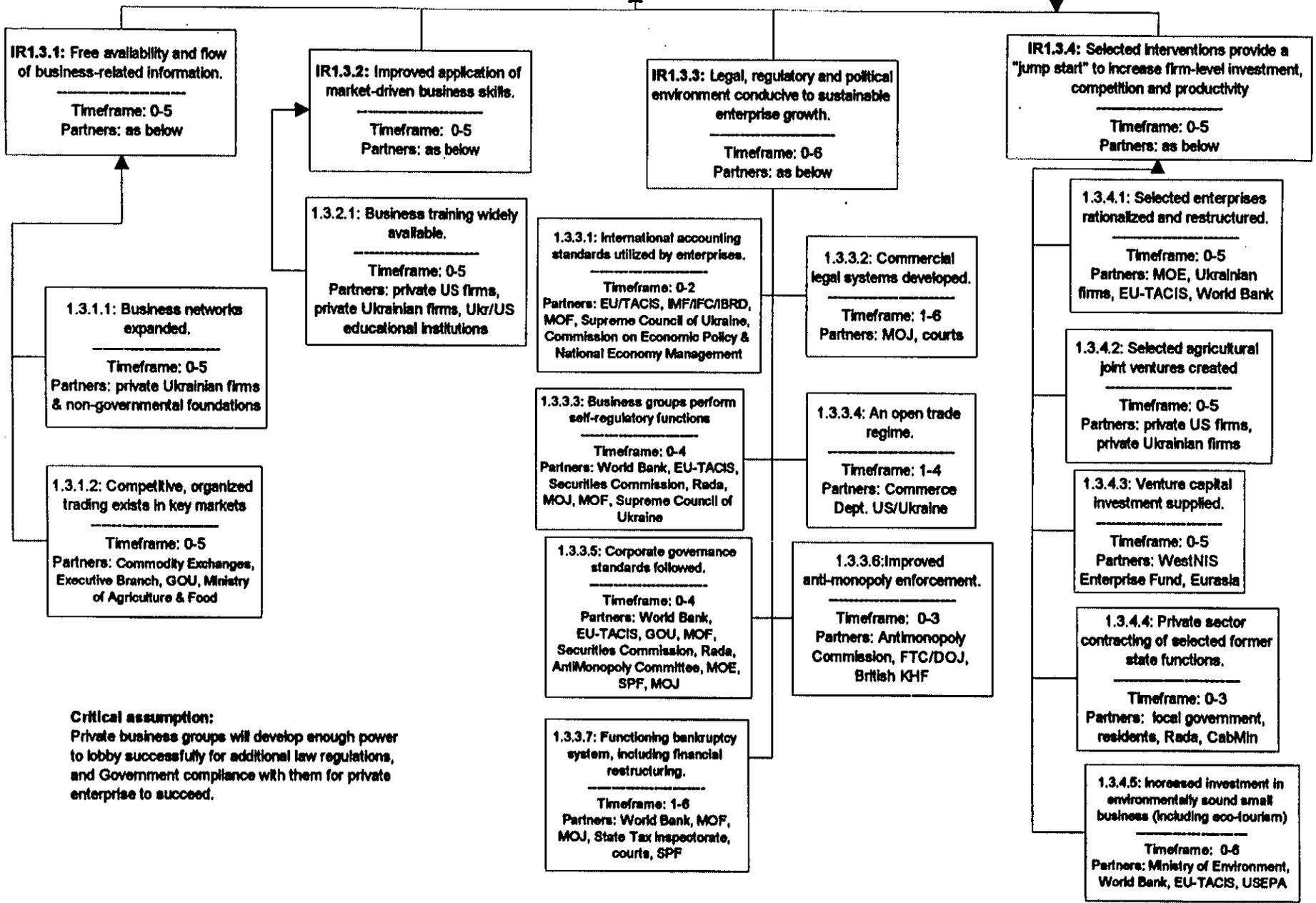
### **IV. Expected Progress in 1997 and 1998**

- Macroeconomic forecasting models and other techniques for use in budget preparation and revision are developed to help the Ministry of Finance increase the accuracy of budget estimates, meet the information requirements of the Council of Ministers and the Parliament, and conform to requirements for continuing aid from international donor organizations.
- Access to and quality and consistency of data required for use in the budget process is improved, and the BPMA is established as the central repository for budget data. Budget reports and analyses are developed and produced for preparation and revision of the budget.
- Analytic tools to assess the "underground economy" and its budgetary implications are developed.

- Alternative fiscal arrangements between central and local governments are developed to allow for better financial planning by the central government and greater autonomy for local governments. The revenue raising authority of local governments is increased, and financial and political management at the oblast and government levels are strengthened.
- The Parliamentary Working Group completes work on the codification of existing disparate tax legislation, and the major tax laws are revised in accordance with international standards.
- The enactment and implementation of the new single tax code enhances the environment for private investment and economic growth. Taxpayer assistance programs encourage voluntary compliance, and tax law enforcement provisions are adopted to increase tax law compliance and collections.
- The National Tax Training Center becomes fully operational and a significant portion of the 50,000 tax collectors throughout Ukraine are trained in more efficient techniques of tax administration and enforcement.
- Ukraine's national budget is more detailed, with budget line items supported with information and the Budget Committee's sessions are open to all government officials, thereby increasing the transparency of the Committee's work.

**SO1.3: Accelerated development and growth of private enterprises.**  
 Timeframe: 0-6

**IR 1.3.5**  
 SO1.1 Transfer of state owned assets  
 SO1.4 Private financial sector  
 SO1.2 Fiscal policies



**Critical assumption:**  
 Private business groups will develop enough power to lobby successfully for additional law regulations, and Government compliance with them for private enterprise to succeed.

280

## **SO 1.3 Accelerated development and growth of private enterprises**

### **I. Results Framework**

#### **Transition Hypothesis/Underlying Rationale**

This strategic objective contributes directly to ENI Strategic Assistance Area I: Economic Restructuring. As the State abandons productive and commercial enterprises and reduces its service role, private enterprise must fill the void to maintain economic well being and improve upon it. The real proof of the value of the transition to a democratic, free market society is the well being of the people and its up to private enterprise to deliver.

For private enterprise to meet that challenge it must have certain policies in place. The legal, regulatory and political environment must guarantee property rights and enforce them. Commercial law must provide for transfer of ownership, for market entry and exit, competition, and cross cutting laws should establish the rules on taxes, banking, bankruptcy and labor. There must be an open trade regime to encourage the country to specialize in products and services for which it has a competitive advantage. Private enterprise and its owners must adopt certain standards for self governance and accounting in order to maintain the public trust through transparency of operations. Last but not least, in Ukraine there still are powerful interests tied to State monopolies aimed at protecting those monopolies from competition. There must be a strong antimonopoly effort to level the field for the private sector and a strong private business lobby to enforce their rights as per the new policies.

Private enterprise also needs an infrastructure that provides business related information on market opportunities, prices, competitors, costs, taxes, regulatory requirements, etc. It requires opportunities to obtain the technical skills to use that information and business technologies to compete successfully.

The Mission has selected several sectors for "jump starting" interventions to increase firm-level investment, competition and productivity. Those interventions range from venture capital and credit to joint venture promotion to providing technical assistance to contractors providing services formerly provided by the State. Given the importance of agriculture to the economy (agriculture generates 30% of GDP and accounts for 20% of employment), that it has high potential for foreign investment, and that it is still monopolized by Collective and State farms, it is one of the sectors selected. Strategic Objectives 1.1 Transfer of State owned assets to the private sector, SO 1.4 A more competitive and market-responsive private financial sector, and SO 1.2 Increased soundness of fiscal policies are inextricably connected to this Strategic Objective, but are especially important to the agricultural sector. Privatization of the Collective and State owned farms, capital for development and sound fiscal policies are essential to give agroindustry its proper place as the leader in carrying Ukraine's economy forward.

## Critical Assumptions

1. That private business groups will develop enough power to lobby successfully for additional laws, regulations, and government compliance with them, for private enterprise to succeed. Ultimately private sector interests must garner sufficient power to not only change policies and laws but to force compliance in order for reforms to take hold.

## Causal Linkages

SO 1.3 Accelerated development and growth of private enterprises in Ukraine requires five sets of intermediate results in order to increase the number of businesses and their relative (to the public sector) contribution to GDP. They are: 1. Free availability and flow of business-related information, 2. Improved application of market-driven business skills, 3. Legal, regulatory and political environment conducive to sustainable enterprise growth, 4. Selected interventions provide a “jump start” to increase firm-level investment, competition and productivity, and 5. SOs 1.1, 1.2, and 1.4 produce the required transfer of State assets to the private sector, sound tax policies and investment capital at a reasonable cost. Those five together are sufficient for private enterprise to fill and exceed the GDP void left by a shrinking State contribution. Each of those IRs will be produced by the following results:

**IR1.3.1 Free availability and flow of business-related information is the result of business information widely reported in the media (IR1.3.1.1), business networks expanded (IR1.3.1.2), and competitive, organized trading exists in key markets (IR 1.3.1.3). When those results occur, among other things, one should see price convergence around the country for key goods.**

**IR1.3.2 Improved application of market-driven business skills. On the one hand the private training sector will grow as its own business in response to market demand for skills. On the other hand enterprise performance will improve with the application of those skills.**

**IR1.3.3 Legal, regulatory and political environment conducive to sustainable enterprise growth will be measured by the number of registered firms and employment in private small and medium-sized enterprises. There are a number of intermediate results required to create such an environment. Enterprises must conform to an international standard of accounting for transparency to facilitate regulation, market exchanges (sales of businesses) and investment (IR1.3.3.1). Commercial legal systems must be developed to, at a minimum, enforce contracts at a reasonable cost (including transaction costs) (IR1.3.3.2). Business groups must be formed to perform self regulation functions and to lobby for specific changes in the legal, regulatory and political environment to favor private enterprise. Those groups must also ensure that the bureaucracy actually implements the policies as defined by law and regulation (IR1.3.3.3) There must be an open trade regime that places minimal or no cost on imported productive assets and allows competition with imported goods to the benefit of the consumer. An open trade regime also encourages the country to emphasize those exports for**

which it has a competitive advantage (IR1.3.3.4) Companies must conform to a generally accepted set of standards for governance if they expect to sell shares as a means of gaining investment capital (IR1.3.3.5) The government must improve enforcement of the antimonopoly law, increasing State enterprise exposure to competition on an equal footing with private business, in order gain the full benefits of private enterprise (IR1.3.3.6) Finally, there must be a functioning bankruptcy system for the protection of the banks and private investors in order to encourage investment in private enterprise (IR1.3.3.7).

**IR 1.3.4 Selected interventions provide a “jump start” to increase firm-level investment, competition and productivity will be measured by the number of firms that receive direct, company-specific restructuring from USAID.** The Mission selected key areas for direct intervention to increase GDP because those areas offer windows of opportunity for high impact in the short term or even greater impact over the long term. As mentioned above, because of the enormous potential of agriculture, collective farms are being restructured into business operations A project still in the design phase will help other kinds of enterprise recently privatized with technical assistance for restructuring to become competitive in a market economy. (IR1.3.4.1). The Mission is supporting joint ventures in agriculture to bring market opportunities and forces to bear on agricultural inputs and on marketing of agricultural products. Even collective or State farms may become more productive if they get real market costs applied to inputs and real market prices for their outputs. (IR1.3.4.2). Various programs, including the WestNIS enterprise fund, supply venture and loan capital to capital market niches. Those market niches include small and medium sized businesses, credit union development and micro enterprise (1.3.4.3). One favorable window of opportunity is supplied by State withdrawal from services it used to provide. In housing, for example, USAID is helping private maintenance companies to pick up responsibilities for repairs and maintenance previously subsidized (IR1.3.4.4). Given the high level consciousness in Ukraine about environmental issues, there is an opportunity to promote increased investment in environmentally sound, small business (IR1.3.4.5).

**Finally, the fifth IR1.3.5 includes results from three other SOs that are necessary to achieve accelerated development and growth of private enterprise. They follow:**

**SO1.1 Increased transfer of State-owned assets to the private sector.** For State assets to become real assets rather than national liabilities they must come under private control so that their economic viability is tied directly to the economic viability the decision makers directing their use. Those decision makers must swim in the same sea as private enterprise, subject to the same market rules, for competition to produce real social benefits. Transfer of State-owned assets to the private sector is necessary to allow State monopolies to dissolve into competitive enterprises.

**SO1.4 A more competitive and market-responsive private financial sector.** There must be a private financial sector to keep the banking system from subsidizing failing State enterprises. It must be competitive so that State banks cannot afford to invest in liabilities but must invest in productive activities and so that the cost of finance (the intermediation spread) becomes a

reasonable cost for business. As capital markets develop they will provide additional sources of finance for private enterprise.

SI 1.2 Increased soundness of fiscal policies and fiscal management practices. Sound fiscal policies and practices are necessary in order to give business a stable set of rules over time that favor private enterprise rather than tax it out of business.

## II. Overall Progress to Date

Business development is essential to create jobs, generate income, expand the availability of goods and services, increase tax revenues and produce other economic benefits. However, there are still serious barriers to the creation and development of businesses in Ukraine. Some of them are physical or systematic, some are rooted in government policy, law and taxation, which create an unfriendly environment in which new or privatized businesses must operate. Public acceptance of business as a way of life is still limited, and the formal representation to government of the general interests of the private sector is in its infancy.

Agriculture, agro-industry and the entire food system are key to the transformation of the Ukrainian economy and must be given high priority in efforts to accelerate the growth of enterprise generally. The country has a strong comparative advantage in agriculture, which alone generates 30% of GDP, 20% of employment and is a major source of present and future foreign exchange earnings. The food system, including the agro-industrial complex and retail trade, plays a much larger role in the national economy and employment. Agribusiness is a high priority for foreign investors, especially the U.S. However, agriculture, the agro-industrial complex, and farm structure and land ownership are among the strongest pieces of the old Soviet system that have been left relatively intact. The deeply entrenched involvement of the state in all aspects of agricultural production, processing and trade is a major impediment to progress. It is important to create alternative marketing, distribution and processing services, as well as new market mechanisms, particularly commodity exchanges.

**IR1.3.1 Free availability and flow of business-related information:** Widespread dissemination of business-related ideas, data and information, as well as the availability of services and financing, will greatly improve the competitive environment, as well as the number and range of businesses and transactions. Ukraine has made some progress toward ensuring the free flow of business information.

Results achieved to date include:

- *Business networks expanded:* A variety of indigenous and donor-assisted business service centers are offering clients expert advice, market research, and easy and efficient access to legal and commercial databases. The types and quality of advice vary but focus on subjects such as business planning, financial analysis and how to

comply with Ukrainian regulations. The use of formal computerized networks of business information is expanding rapidly, with and without donor assistance. Less formal "networks" e.g., business periodicals are also growing quickly although the quality of information varies.

- *Competitive, organized trading exists in key markets:* Organized trading provides timely information in selected sectors. Trading is beginning to take place on agricultural commodity exchanges and a Commodities Exchange Association has been established in Ukraine, resulting in a narrowing of the gap between domestic and world agricultural prices. Professional associations of real estate brokers, agents and appraisers have been established in Kiev, Kharkiv, Odessa and Lviv. These associations help foster a market information mechanism, by which buyers and sellers are informed about the properties for sale and terms offered.

**IR1.3.2 Improved application of market-driven business skills:** A second requirement to ensure a thriving private sector is the improved application of market-driven business skills. Entrepreneurs are constrained by a lack of advanced business skills necessary to grow and compete in an increasingly competitive domestic and international market environment. While there are a range of consulting and business service organizations, they also have limited skills and exposure to the modern techniques demanded by their clients. Furthermore, Ukraine's system of professional education in management, accounting, finance and law is only now adjusting from the requirements of a centrally-planned economy to the practical needs of decentralized decision making and individual entrepreneurship.

Results achieved to date include:

- *Improved application of market-driven business skills.* The number of business service companies serves as one proxy measure of the demand (and, thus, application of) market driven business skills. Even casual observation reveals a rapidly increasing number of private companies offering business assistance of all kinds. A change in GOU procedures for registering companies later this year is expected to allow measurement of this growth.

In agriculture the situation is very different. Since the breakup of the USSR, agricultural production has fallen by nearly 40 percent. Employment and incomes have fallen steeply as in the rest of the economy. The use of modern inputs has dropped sharply and agricultural assets and machinery have deteriorated dramatically. As a result, farmers are receiving little in the way of training in new technology and new skills. With few exceptions, farms and farmers are turning inward toward subsistence and self-sufficiency, withdrawing from the market and retreating from specialization. The result of this, in turn, is that net skill levels and technical knowledge are deteriorating.

- *Business training widely available.* Ukraine is witnessing a proliferation of business courses offered to the public. Quality varies and a high turnover of training

organizations can be expected. Nevertheless, growth is impressive. The number of graduating MBAs in 1996, for example, is expected to be 1,000 -- five times the level of 1995. Continued rapid growth is anticipated.

**IR1.3.3 Legal, regulatory and political environment conducive to sustainable enterprise growth:** A successful market economy must be based on a legal, regulatory and political environment conducive to sustainable enterprise growth. In particular, it requires a legal framework to support basic economic freedoms, the guarantee of private property rights and the means to enforce these rights. Ukraine is making mixed progress developing a framework of institutionalized rules regarding property relations, and an enforcement system for ensuring that contracts are adhered to. Progress in specific areas is discussed below.

Results achieved to date include:

- *International accounting standards utilized by enterprises:* Internationally accepted accounting is the language of business in a market economy. It is the crucial medium and measure for optimizing resource allocation and assessing performance of resources. Access to accounting information is a requirement for effective management of enterprises above a certain size and level of complexity and serves as the basis for the interaction of enterprises and the financial markets. Participants in the market must have access to unbiased information that is derived from accounting records to determine the financial position of both profit and non-profit organizations. Although a Cabinet of Ministers' Decree in 1993 mandated the adoption of international accounting standards (IAS) for corporate accounts, there was no expertise to do so until USAID assistance started in late 1995. Ukraine is now making accelerated progress toward the establishment of IAS, with some assistance from other donors. But widespread adoption of them by enterprises will be a gradual process.
- *Commercial legal systems developed:* Ukraine has made little progress toward a commercial legal system. The primary underpinnings of a commercial law system include structures for property ownership and transfer, for the establishment and enforcement of obligations, for market entry and exit, and for market competition, as well as cross cutting laws on tax, securities, banking and labor. Ukraine lacks experience with underlying market principles and practices, and is hampered by a governmental bureaucracy that is generally a holdover from the prior regime. Ukraine is also inexperienced in parliamentary process and has been hampered by constitutional crisis as the only former soviet state not to have adopted a post-independence constitution. Perhaps due to the unstable constitutional base, privatization of productive and commercial assets has been slow, with the result that development of a private business lobby has also lagged. These and similar factors have led to the proposal and adoption of less than adequate laws, to the revision of laws in the course of adoption in ways that lessen their workability and to the adoption of foreign models without proper integration into the Ukrainian context or omitting necessary elements.

- ***Business groups perform self-regulatory functions:*** The benefits of self-regulation by business groups become apparent as an increased number of specialized functions are performed by private firms. Accounting and capital markets functions are particularly important at the outset. For accounting reform to be sustained, it is crucial that the emerging accounting and auditing professions and users of financial information be served by an indigenous accounting and audit association. A working group has been established to form an SRO and the SRO is expected to be officially registered in mid-1996. The association will promulgate and implement standards and practices, increase the knowledge and awareness of accounting and audit information and represent the professions on all relevant issues.

For capital markets, self-regulatory organizations (SROs) are established to: enhance investor protection and their confidence in the investment industry; to represent the interest of these industry participants in their relations with government agencies and the general public; as well as to assist such participants in implementing more efficient business strategies and higher standards of business ethics. A self-appointed SRO of 140 investment funds and trust companies already exists and has taken one disciplinary action against a member. A second SRO is being formed by the founder brokers of Ukraine's over the counter share trading system. Although neither has yet received formal self-regulatory authority from the government, it is hoped that will be received this year.

- ***An open trade regime:*** Ukraine is making progress toward an open trade regime and is actively moving toward accession to the World Trade Organization (WTO). Two Working Party meetings have been held, and Ukraine has completed its submission for the Third Working Party meeting in June 1996. A Fourth Working Party is expected in December 1996. Overall, the accession process is more than half completed. In closely related endeavors, Ukraine is expected to join the international harmonized system of classification of goods and the Kyoto Convention. The State Customs Committee (SCC) of Ukraine has established a training program for its approximately 16,000 recent hires as well as an in-service training program for ongoing training, all as part of the SCC's efforts to bring its procedures to world standards.
- ***Corporate governance standards followed:*** Basic corporate governance standards are developed and are being further refined by Ukraine's Securities Commission. But the general level of knowledge and the application of corporate governance is very limited. Effective corporate governance is critical not only to the success of privatization, but to the growth of capital markets and enterprise generally. New owners, including investment intermediaries, need representation on company boards and the ability to exercise control of management (including its removal when appropriate). Shareholders themselves may not always restructure companies but need the right to ensure that restructuring take place, either by participating in major

business decisions or by promoting managerial change.

- ***Improved anti-monopoly enforcement:*** In the area of antimonopoly and unfair competition, the Antimonopoly Committee of Ukraine (AMC) has moved aggressively to develop necessary legislation, internal and investigative procedures and enforcement mechanisms, gaining international recognition for the progress it has made in the approximately two years since the AMC became active. The AMC has also sought to promote transparency and the dissemination of AMC policy through brochures, annual reports and even radio programs. In addition, the AMC has actively resisted the efforts of various governmental units to restrict market access by private businesses. On the other hand, the AMC has shown an unfortunate interest in monopoly pricing, rather than in breaking up the monopolies, has not completed its internal organization and procedures, and has not developed its investigative procedures to the extent necessary, particularly at the regional AMC offices in each oblast.
- ***Functioning bankruptcy system, including financial restructuring:*** Ukraine has a rudimentary bankruptcy law. The law provides for liquidations but has no recognized provisions for restructuring financially troubled entities. The law is most frequently misused for debt collection purposes by banks and especially by the State Tax Inspectorate (STI), which currently brings about 90% of the cases filed. The vast majority of cases are no asset cases. There is no supporting infrastructure; no professional trustees or liquidators have emerged, those roles generally being filled by the creditors directly involved. The parliament is currently considering a revision to the bankruptcy law that could address many of the dysfunctionalities in the current law. Moreover, the judges who handle bankruptcy cases in the regional arbitration courts and the appellate Highest Arbitration Court are actively developing approaches and procedural rules to resolve problems faced in handling cases and eliminate gaps in the legislative framework.

**IR1.3.4 Selected interventions provide a "jump start" to increase firm-level investment, competition and productivity:** The three Intermediate Results described above and supporting Strategic Objectives 1.1, 1.2 and 1.4 establish the rules, institutions and skills for a functioning market economy. IR1.3.4 consists of interventions by AID (and some other donor and/or private organizations) that do not create the building blocks of a market, but seek instead to accelerate its development by demonstration and/or direct infusion of resources. These "jump start" activities in turn are expected to accelerate the development and growth of private enterprises more widely. Since they are, by definition, ENI activities they are discussed in the section on ENI significant contributions below.

### **III. ENI'S Significant Contributions**

**IR1.3.1 Free availability and flow of business-related information: Significant**

contributions have been made through the NewBizNet project, discussed below, which targets small and medium sized enterprises. Press Clubs, established throughout Ukraine under our public information program, educate journalists on a wide range of business and economic policy issues, generating extensive business-related reporting. NET funds have been used to train journalists in economic reporting. USAID support to Ukraine's Securities Commission includes assisting to define and enforce company disclosure requirements. In addition, USAID has made a major investment in informing the public about the companies offered for auction through mass and small scale privatization programs.

AID assistance to establish competitive, organized trading in selected markets has also been significant and has concentrated on markets for agricultural commodities and real estate (capital markets are covered under SO1.4).

Results achieved to date include:

- ***Business networks expanded:*** Information programs initiated by the NewBizNet project include an electronic Business Information Network (BIN) with a network hub in Kiev set up in 1996, with links to three Ukrainian Business Centers in other cities. The network collects and disseminates information to local business centers, local businesses themselves, local and central authorities and policy makers, and international organizations. The BIN provides access to business information databases and resources, market and marketing opportunities, business news, and other information relevant to individual businesses and economic policy formulation. It facilitates buyer-supplier contact with the aim of brokering business deals. There are currently about 300 paying subscribers and 400 additional businesses that purchase specific information from the service.
- ***Competitive organized trading exists in key markets:*** Through the commodity exchange support program, USAID is assisting eight pilot national and regional exchanges to become private, independent and open markets for agricultural commodities. One objective is to diffuse widely domestic and international price information in order to bring domestic prices in line with international ones. We are also assisting Ukraine's National Association of Commodity Exchanges as a mechanism to support the activity of its independent members. There is already wider dissemination of price information and domestic and international prices have begun to converge.

Through the East European Real Property Foundation (EERPF), USAID has assisted four associations of real estate brokers and agents, and a national property appraisal association to increase the professionalism of the techniques and practices used by members. With EERPF support, the associations have begun to publish timely information about property sold and available and prices.

**IR1.3.2 Improved application of market driven business skills:** AID's principal support

has been through the NewBizNet project and in agriculture. Other programs are also beginning. NewBizNet works through three Ukrainian business service centers to assist small and medium scale enterprises (SMEs). The project emphasizes improvements in the quality and range of services to SMEs as well as increasing the number of firms being served. Linkages to lending programs are also being established to complement the full range of business services. The service centers provide technical assistance, training and education, information, research, and introduction to modern business practices, and other assistance in conducting business in a market economy.

The four Farm Service Centers established under USAID's agribusiness partnerships program are helping to transfer new skills and new technology to Ukrainian farmers. These Centers are joint ventures, combining U.S. private investment, technology and managerial skills with Ukrainian counterparts in private agricultural production undertakings. U.S. agricultural inputs - chemicals, seeds, no-till and other agricultural implements - are supplied to Ukrainian farms in exchange for output, which is marketed abroad at world prices.

Under USAID's environmental program, experienced U.S. private sector production managers and public sector experts are providing on-site technical training and advice through the Ministry of Environment to private firms to undertake enterprise efficiency and waste minimization assessments and audits. The technology required to undertake, and in some cases implement, efficiencies is also being provided.

A grant to IFC is being negotiated through which AID will support the provision of business development assistance to enterprises privatized through Ukraine's small scale privatization program.

Specific results achieved to date:

- *Improved application of market-driven business skills:* The number of repeat, paying clients of NewBizNet business centers is growing rapidly. Tracking systems are being put into place to monitor the impact of the services they provide. In agriculture, dramatic increases in yields (up to 100%) are being experienced by farms using the technologies, knowledge and inputs provided through Farm Service Centers. The lead center is expanding its package to almost 600,000 hectares this season.
- *Business training widely available:* NewBizNet business service centers have trained over 2,000 paying students and provided in excess of 135 consultations (including 40 follow-up consultations) since the project began.

More than 4,000 Ukrainian farmers and farm managers a year receive hands-on, intensive training in the use and application of the technology disseminated by the four Farm Service Centers. Since this training goes hand-in-hand with immediate incentives -- higher production, higher prices, more income and employment -- the training has lasting benefits

and is sustainable. Unfortunately, although the number of trained individuals appears large, the vast majority of Ukrainian farmers remain seriously constrained in their access to inputs of any kind and to markets, and they are especially cut off from new technology.

### **IR1.3.3 Legal, regulatory and political environment conducive to sustainable enterprise growth:**

Specific results achieved to date:

- ***International accounting standards utilized by enterprises:*** USAID assistance began in late 1995. Working with the Ministry of Finance and the National Audit Commission, USAID consultants established a consensus among policy makers and private practitioners to establish now the framework for a self-regulatory organization of accountants that will adapt and promulgate global accounting standards for use in Ukraine. AID is now a) assisting the SRO to form, b) educating large numbers of government officials, enterprises and accountants about the nature and implications of IAS, and c) is working with five pilot Ukrainian companies to convert Soviet to IAS accounts.
- ***Business groups perform self-regulatory functions:*** USAID assistance has prompted the formation of three, and potentially four, self-regulatory organizations. Although none have formal self-regulatory authority delegated by government yet, that is expected by the end of 1996. The Ukrainian Association of Investment Businesses was established in 1995 for investment funds and trusts. It includes about 140 members, has adopted a code of conduct, and recently took its first self-disciplinary action against a member. An association of dealer/broker members of the new Over the Counter stock trading system was formed this year and currently has about 45 members. This organization is very similar to NASD in the United States. The accounting SRO was discussed above. It is expected to promote accounting reform at the enterprise level by adopting and promulgating standards and practices based on International Accounting Standards (IAS), training users and producers of accounting information and serving as the advocate for the accounting and auditing profession. A fourth SRO may develop from USAID's ongoing assistance to independent share registrars.
- ***An open trade regime.*** USAID has financed WTO Accession Advisors at the Ministry of Foreign Economic Relations and Trade (MFERT) through the U.S. Department of Commerce's Commercial Law Development Program. These advisors have assisted the MFERT in the preparation (and translation) of Ukrainian submissions to the Working Party meetings on accession to the WTO and in preparing for the meetings themselves. The WTO Accession Advisor has accompanied the Ukrainian delegation to the Working Party meetings in Geneva, where he has assisted the delegations in the Working Party meetings proper as well as with separate

bilateral meetings with other delegations.

To bring Ukrainian customs practice to WTO standards and to facilitate trade generally, USAID has had two long term advisors in residence at the State Customs Committee for the past year. One has focussed on training, preparing syllabi and training materials for the initial training of new employees and in-service training for existing employees. This advisor introduced U.S. training methods and standards. Ukrainian customs officials were taken for training at the U.S. Customs' Glencoe, Georgia training facility and at U.S. ports of entry. The other advisor has developed customs procedures and policies, bringing those into conformity with international practice, classification and valuation procedures, and facilitated resolution of other issues such as the handling of transshipment and in transit goods, interdiction of illegal goods and bringing Ukrainian practices and legislation into conformity with post-WTO accession requirements and other international conventions.

- *Corporate governance standards followed.* USAID contractors working on mass privatization assisted the State Property Fund to improve the standard charter that governs privatized companies. They provided corporate governance training to representatives of 500 companies. USAID capital markets contractors are assisting Ukraine's Securities Commission to refine corporate governance standards on issues such as notice to shareholders. Now that privatization in Ukraine is accelerating, the Mission is seeking additional funds immediately to re-start and accelerate corporate governance and shareholder rights training, including efforts to disseminate information broadly to the public.
- *Improved anti-monopoly enforcement* During 1995, USAID had long term advisors in residence at the AMC, who assisted the AMC in drafting multiple pieces of legislation and regulations, in instituting administrative and case management procedures, in initiating and conducting investigative and enforcement proceedings, and with policy and transparency issues. USAID's public education contractors developed and implemented a public awareness campaign on anti-monopoly issues for the AMC. In collaboration with AID's energy program, the Mission organized a visit by AMC and other GOU officials to review electricity regulation in California and Great Britain. In addition, USAID supplied the AMC with a computer system and has taken AMC officials to Washington, D.C. for training and discussions with FTC/USDOJ officials. USAID and the AMC co-sponsored a week-long international antimonopoly conference in Kiev in October 1995, attended by antimonopoly officials from the U.S., Germany, Turkey, Poland, Russia and Kazakstan.
- *Functioning bankruptcy system, including financial restructuring* USAID conducted a study of bankruptcy and restructuring in Ukraine, the results of which were presented at a conference in Kiev on May 14, 1996, where they were integrated into a comparative study of bankruptcy and restructuring in 13 other countries of Central and Eastern Europe and the Baltics. The conference was extremely well attended and enthusiastically received, resulting in requests for assistance from all three branches

of the Ukrainian government. USAID had previously been formally requested by the Commission of Political Economy of the Parliament to furnish, and has furnished, assistance to the Commission in evaluating the draft revision of the Bankruptcy Law submitted by the Ministry of Justice.

USAID is responding to all requests for assistance from its successful bankruptcy and restructuring conference. USAID has already developed, with the Highest Arbitration Court of Ukraine, plans for assistance to that Court is preparing procedural rules and practice commentaries on issues of interpretation, and in holding training sessions for the bankruptcy judges.

#### **IR1.3.4 Selected interventions provide a "jump-start" to increase firm-level investment, competition and productivity:**

##### **Specific Results Achieved to Date:**

- *Selected enterprises rationalized and restructured:* AID support has been postponed to future years.
- *Selected agricultural joint ventures created:* Four Farm Service Centers have been established with strong U.S. private sector participation to supply U.S. technology and inputs and to provide a private alternative to state systems for supplying inputs and marketing output. The four Service Centers cover a total of nearly two million acres, affecting 870 farms. Since 1993, yields on this land have increased by 30% - 150%, depending on the crop. The development of a private farm finance company is at an advanced state, with proposals presented to potential investors, including companies participating in existing USAID-supported Agribusiness partnerships, European banks, and U.S. and European private sector representatives. A U.S. Government-sponsored Export-Import bank program has leveraged private sector resources to supply much needed inputs to the agricultural sector.
- *Venture capital investment supplied:* In venture capital investment, the West NIS Enterprise Fund is being capitalized at \$150 million to promote new private companies and entrepreneurs by financing private sector projects and attracting outside resources. The Fund makes loans and equity investments in small and medium sized companies. The Enterprise Fund has two separate windows, one for small loans (under \$100,000) and one for debt and equity (under \$5.0 million). USAID also funds small business loans through the Eurasia Foundation which, in conjunction with AVAL Bank, provides hard currency loans to small enterprises. In addition, USAID supports the World Council of Credit Unions in addressing the issue of access to debt financing by assisting the development of the Ukrainian National Association of Savings and Credit Unions, which develops model credit unions.

As of May, 1996, the West NIS Enterprise Fund had \$12,770,000 in total approved

commitments and will close three investments totaling approximately \$3,200,000 in the next three weeks. Approximately \$5,770,000 of the commitments that have been approved will not close due to changing market conditions, findings during due diligence on the investments, and rethinking of western partners' strategies. Under the Small Business Loan Program the Fund has approved \$875,100 in loans, and reviewed over 400 business plans of which approximately 50 are under active consideration. In the next six months, the Fund expects to have approximately \$2,000,000 in debt outstanding to 40-50 small enterprise customers. In FY 96, the Eurasia Foundation provided \$420,000 for hard currency loans to small business in selected cities in Eastern Ukraine.

- *Private sector contracting of selected former state functions:* USAID assistance has supported the provision of housing maintenance and management services by private businesses. The concept of private management and maintenance has been successfully demonstrated and documented on 22,000 units in three cities, and 41 other cities are beginning to implement reforms using these models. USAID is now working with municipal governments to modify laws, policies and regulations that prohibit private contractors from competing with the municipal housing management entities. Although due to budget constraints, the housing program is being phased out in FY 1996, the Mission plans to continue these elements under ongoing work in the democracy and private sector initiatives portfolios.
- *Increased investment in environmentally sound small business (including eco-tourism)* A participatory process has been initiated to develop community strategies for environmentally sound economic development at the local level. With the support of local, oblast and state government officials, USAID has initiated a comprehensive and participative program to include local business representatives, local government officials, citizens and potential investors to identify opportunities for environmentally sound micro-business including agribusiness, alternative energy, forestry, and eco-tourism.

#### **IV. Expected Progress in 1997 and 1998**

1.3.1 The NewBizNet project will continue at least through FY98. The total number of paying subscribers to its business networks is expected to reach 5,000 by the end of that year.

Independent, private commodity exchanges will establish market-based, benchmark prices for agricultural commodities throughout the country, provide a basis for risk management, and create a market-based system of agricultural prices to support and expand agricultural and agro-industry exports. The commodity exchange project will disseminate basic knowledge in exchange operations to all private exchanges. It is anticipated that the average weekly volume of agricultural commodities sold over the exchanges will exceed 100,000 tons by the end of 1998.

Assistance to the real estate profession through the EERPF will continue. A rapid expansion of urban real estate markets and information is expected. The number of local real estate professional associations is anticipated to exceed 10 by the end of 1998.

1.3.2 Under the NewBizNet Project, Business Service Centers will continue to provide advisory services directly to enterprises. USAID expects to begin the second phase of its agribusiness partnerships program by the end of 1996. By the end of 1998, 15% of the sown agricultural land in Ukraine is expected to be using new technologies the program will introduce.

In FY 1996, the basic training to enable the establishment of independent efficiency/waste minimization service organizations will not be completed. In FY 1997, training must be completed and follow-through training provided in FY 98 to assist with business plan development and financial management to support the achievement of this objective.

The planned IFC Post Privatization Support project will address many of the same issues as the NewBizNet project, but will focus strictly on the smallest SMEs and will take advantage of IFC's experience with the municipal government structure.

1.3.3 The accounting reform project will continue to develop the capability of the professional accounting organization to promote accounting reform at the enterprises level by: adopting and promulgating standards and practices based on IAS; training of users and producers of accounting information; and by serving as the advocate for the accounting and auditing profession. A second objective is to train the appropriate individuals representing a number of pilot enterprises using IAS-based accounting to raise capital, improve competitiveness and/or enhance management and ownership information, and the development of implementation methodologies and tools that can be applied at the enterprise level. It is expected that, by the end of 1998, the accounting SRO will have 200 dues paying members, and 125 companies listed on the OTC share market will issue financial statements that conform to IAS.

During 1997, USAID expects to identify the commercial legal systems that will become increasingly necessary as the development of a market economy accelerates. The leading candidates are arbitration; the concept of fiduciary duty; and conflict of interest. Once the new Civil Code is adopted (anticipated in 1997), it may point the way toward commercial legislation that needs to be developed to implement general concepts included in the Civil Code. International standards need to be developed further to ensure cross-border enforcement, particularly in the financial and trade sectors, following WTO accession and as the financial markets mature.

During 1998, USAID expects to assist Ukraine to initiate a program of arbitration or other alternative dispute resolution to supplement the arbitration courts, which are expected to become increasingly busy as the economy develops and which are currently so expensive as to discourage litigants from resolving disputes through arbitration court proceedings.

By the end of 1998, formal self-regulatory bodies are expected to be fully operating in the accounting profession, among investment funds and/or mutual funds, among member brokers of the OTC market, and perhaps among share registrars and/or operators of private pension funds.

Assuming Ukraine is admitted to the WTO early in 1997, open trade assistance will concentrate, during 1997, on bringing Ukrainian legislation into compliance with the mandatory requirements of various WTO codes applicable to member states. During 1997 and 1998, this assistance will include bringing Ukrainian practices into compliance with WTO standards.

Corporate governance standards will be developed further within the framework of USAID projects that support the Securities Commission and the Ukrainian Association of Investment Businesses. Additional training of company managers is planned as is additional information to the public. By the end of 1998, 100 companies are expected to meet all disclosure requirements of the Securities Commission.

Antimonopoly assistance to Ukraine is expected to continue at least through 1997 when, under an interagency agreement with the Federal Trade Commission and U.S. Department of Justice, it will focus on areas of specific market concern, including cartels and horizontal agreements, on expansion on expansion of investigation and enforcement expertise, particularly into regional AMC offices. By 1998, the AMC should be able to continue without substantial U.S. assistance. It is anticipated the AMC will achieve 110 case resolutions preserving competition in that year.

During 1998, bankruptcy assistance is expected to be the principal focus of USAID efforts in the development of commercial legal systems. Principal assistance activities are to include: the introduction of financial restructuring of troubled enterprises, including assistance in actually conducting restructuring both in and out of court; judicial training, both in techniques and in understanding financial and business matters; introduction to, and training and licensing of, independent trustees and liquidators; infrastructural assistance to the bankruptcy courts, including the provision of computers; and revision of laws and/or court procedures to incorporate basic western standards and protections for debtors and creditors. The bankruptcy area is expected to be dynamic during this period, and additional activities could well be indicated, particularly if, for example, Ukraine elects to create an agency to deal with insolvent state-owned enterprises. By 1997/1998, however, we anticipate a shift of focus from state-owned enterprises to private concerns, concurrent with successes in mass privatization.

1.3.4 A new activity will begin in FY97 to train large numbers of Ukrainian consultants and consultancy firms to restructure newly privatized companies. Models developed and individuals trained will then be ready to assist restructuring large numbers of medium and large scale companies in a later "rollout" phase that may restructure up to 100 companies by the end of 1998.

USAID will also continue to support the development of market-driven, private sector agricultural production, including private marketing and input supply and private sector farm support centers, which provide farmers with alternative sources of inputs and marketing channels, new technology and technical and managerial support. 16 private Farm Service Centers will provide 25 percent of Ukraine's farmers with a viable, market-based source of inputs, technical assistance and market outlets that can compete with the existing, largely non-functional state system. A private, independent US/Ukraine Farm Finance company will provide Ukrainian farmers and agro-industries access to financing for the inputs, equipment and technology that they need. A new generation of 20 agribusiness partnerships focused on value-added, food and feed processing, packaging and distribution will be supported, to encourage private investment in these enterprises and to provide an expanding market outlet for the increased agricultural output being generated through the Farm Service Centers. These centers and enterprises will encourage and sustain private farming through land privatization. Although discussed under SO1.1, the link between the agribusiness partnerships program and farm restructuring/land privatization is important. During the period, workable land ownership reform strategies will be implemented by the GOU with USAID support to accelerate the process of agricultural land privatization and farm restructuring. During 1996, the farm restructuring pilot was successfully undertaken in one of the more agriculturally-oriented oblasts, Sumy. As a result of the effort, the model of restructuring collective farms into modern Joint Stock Companies within existing law has been developed and tested on seven collective farms. The model will be applied comprehensively to collective farms all over Ukraine in 1997/8, with up to 1,000 farms adopting the model by the end of 1998.

The Enterprise Fund expects to make \$25 million in debt and/or equity commitments in 1998, for a cumulative total at that time of \$82 million.

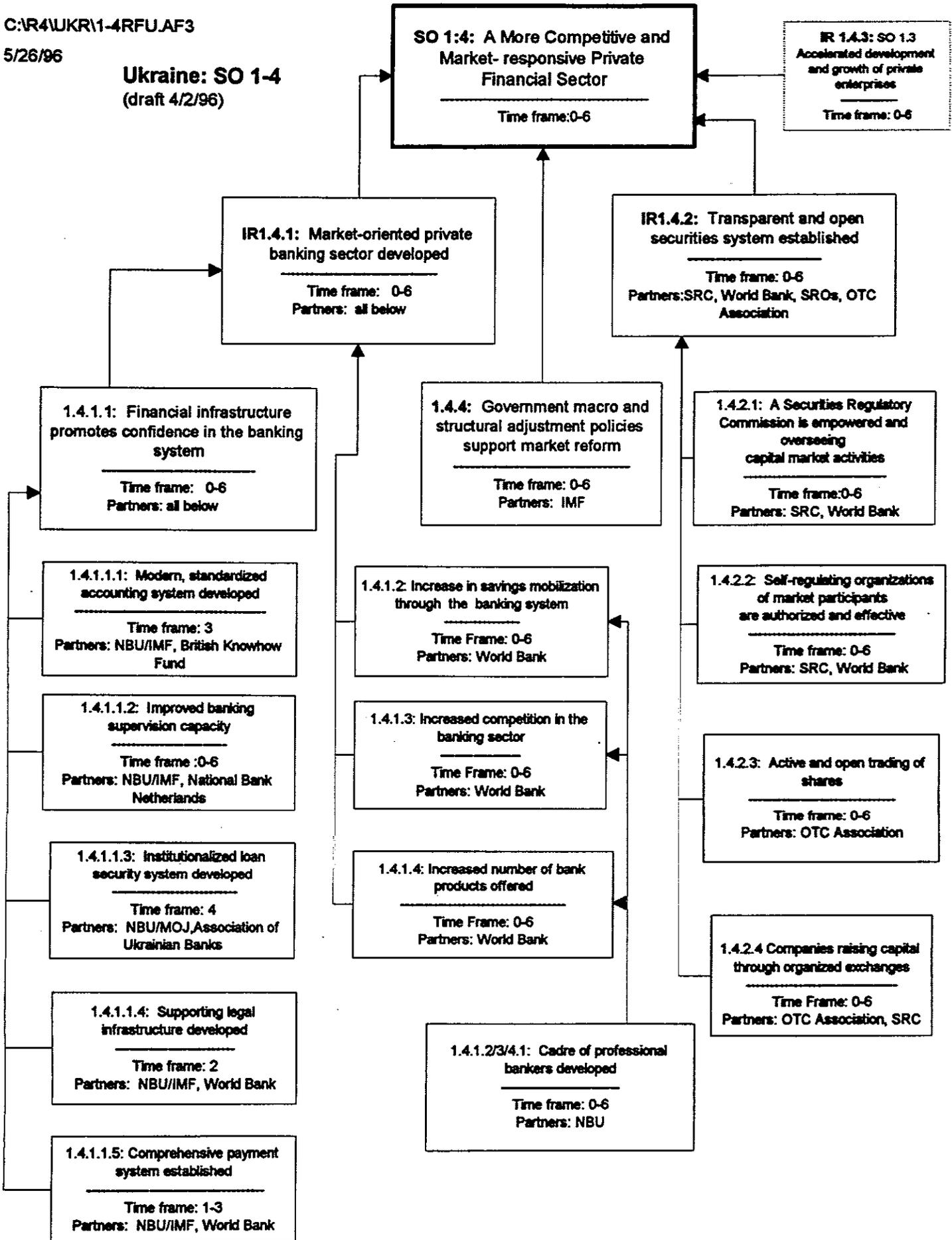
Other USAID activities will work with organizations such as the Association of Cities and the Council of Regions, under the President of Ukraine, to support policy development and improve the environment for business. The Association will also use USAID assistance to promote the private housing market, including condominium formation. Ukraine's Realtor's Association will tap USAID support to promote the private management and maintenance of multiple occupant buildings by private firms. 50 municipal contracts with private firms to manage and maintain multiple occupant buildings are expected by the end of 1998.

Through FY 1998, USAID assistance will increase investment in environmentally-sound small business, including eco-tourism. By FY 1998, the necessary foundation will have been built for a follow-on project to work with Ukrainians to generate income through sustainable business development while contributing to positive policy change at the national level. This will include rolling out the model developed in FY 1996 to other regions in Ukraine. A program is also planned to form and sustain business associations and networks through which Ukrainians can access and exchange information for the environmental sustainability of their ventures. Other assistance is anticipated to form and sustain small-scale private business groups focused on individual sectors, such as eco-tourism guides and organic

farmers. USAID expects that 15 businesses will have been assisted by the end of 1998 to incorporate environmentally sensitive processes into their operations.

5/26/96

**Ukraine: SO 1-4**  
(draft 4/2/96)



46a

## **SO 1.4 A more competitive and market-responsive private financial sector**

### **I. Results Framework**

#### Transition Hypothesis/Underlying Rationale

Under the prior regime, the banking system in the Moldova was not a mechanism for allocating funds to the most efficient investors, but rather an intermediary for implementing the Central Plan. In that environment there was no concern for risk or solvency because defects were automatically covered by the GOM. The task is now to transform the financial sector into one based on market pricing principles rather than on central fiat, thus contributing to ENI Strategic Assistance Area I: Economic Restructuring. Even today State banks continue to lend to failing State enterprises. The government's role in the transformation is to develop a financial infrastructure to promote a safe, sound and efficient banking system. The challenges facing the government are (1) to support competition among the banks to drive down the cost of capital intermediation so that more private enterprises can afford to take advantage of it; (2) to promote transparency of operation; (3) to create a supervisory authority with sufficient independence from State control to enable it to intervene, and if necessary, close failing banks, whether private or State; and, (4) by meeting the prior three challenges, generate sufficient public confidence in the banking system that it attracts increased savings resources to invest in productivity. If the government meets those challenges successfully, price will begin to allocate financial resources through the most efficient banks and to the most productive enterprises. The banking system will become an asset for private enterprise growth rather than a national liability.

The securities side of the financial sector was born out of State privatization efforts. In fact, the development and functioning of capital markets is seen as a necessary corollary to privatization. Once the citizenry becomes shareholders in the productive asset base of the country, the expectation is that many of these people will want to trade their shares and that others will form groups who are interested in consolidating and increasing their stakes in particular companies. The privatized companies, in turn, will need to acquire more equity and working capital through investments channeled through the securities market. The necessary breeding ground for these clearly beneficial outcomes is the development of reliable, transparent trading systems.

The expectation is to have what began as a form of redistribution of State assets to the general population and reducing formal State ownership in enterprises, become a vehicle for savings mobilization for productivity. The national patrimony bonds distributed were not individual savings but a redistribution of social investment. The securities system that is evolving to manage private ownership through State transfer of assets should be the same vehicle for capital mobilization by the private sector. The final indicator of the success of

the Moldova Stock Exchange is companies using it to raise capital through initial public offerings (IPOs). Like the case of the banking system, the government must create a transparent and level playing field with adequate supervision and enforcement to warrant public trust in securities as an investment for savings. The government must also create the rules and supervise the operation of secondary markets in order to offer liquidity to the investor. A properly functioning securities market could also mobilize savings for private enterprise growth. Some of those savings might even be in the form of insurance payments and/or withheld earnings for social benefits.

A more competitive and market-responsive private financial sector will provide investment capital for private enterprise growth, directing it to the most productive activities at a lower cost. That investment is essential for private enterprise to fill the economic void left by a bankrupt State.

### Critical Assumptions

1. The major critical assumption is that the government can instill enough public confidence through oversight of the banks and capital markets that systemic risk is minimal, if either exogenous or endogenous shocks to the finance system occur. The corollary is the continuation of the current, highly commendable, macroeconomic stabilization policies which give the public confidence that savings, in financial form, will not be erode through inflation.

### Causal Linkages

Since the justification for restructuring the financial sector is its contribution to private enterprise growth, private sector investment as a percent of GDP is the measure for the strategic objective. A competitive and market-responsive financial sector will attract capital from both private investment and consumption. Combined with profitability in private enterprise, it will attract foreign investment as well. Three intermediate results are necessary and sufficient to increase that private sector GDP ratio: IR1.4.1 Market-oriented private banking sector developed; I.R.1.4.2 Government macro and structural adjustment policies must support market reform; and IR 1.4.3 Transparent and open securities system established.

There are four intermediate results required to create the market-oriented private banking system.

**First is IR.1.4.1.1 Increase in savings mobilization through banking system.** As described above, with a financial infrastructure that promotes confidence in banks, the public will be more favorably disposed to using banks as a depository for savings and banks will be able to expand their balance sheets and lend more to creditworthy borrowers..

**The second is IR 1.4.1.2: Increased competition in the banking sector.** If the government

allows markets to operate, and deposit and loan interest rates to be determined by market pricing, competition will increase efficiency, narrowing interest rate spreads to the benefit of customers, both depositors and borrowers.

**The third is IR 1.4.1.3: Increase in the number of bank products offered.** Home equity loans, mortgage finance, lines of credit, commercial deposits and lending can offer additional markets for capital intermediation. As bankers gain knowledge in risk analysis and general methods of western banking, they will increase the sophistication of services for both depositors and borrowers.

**The fourth is IR 1.4.1.4: Financial infrastructure promotes confidence in the banking system.** There are three intermediate results required to produce that confidence in the banking system: 1. A modern, standardized accounting system is necessary in order to allow independent evaluation of banking performance by government supervisory agencies, potential investors, and customers. Until performance is uniformly measured it cannot serve the function of directing capital toward efficiency and profitability. 2. The banking supervision capacity must be improved so that it can use the accounting system information to identify troubled banks early and intervene in the interest of the customers in order to maintain confidence in the system and the continued use of customer capital. 3. A loan security system must be institutionalized in order to establish priorities for the collection of loans.

**I.R. 1.4.2 : Government macro and structural adjustment policies support market reform.** The Moldovan government must continue to control inflation, reduce deficit spending, divest unprofitable economic activities to ensure that the private sector is not crowded out of the financial market.

Moving on to the next set of results, IR1.4.3, a transparent and open securities system will perform the function of direct intermediation of capital from savings to the private sector. Secondary markets for securities create liquidity for all participants and open up investment options for insurance companies, pension and other benefit funds from the government and/or unions. There are four sets of intermediate results required to create a transparent and open securities system. 1. A securities regulatory commission must be empowered to oversee capital market activities (IR1.4.3.1). The government must take all measures necessary to ensure transparency and take corrective action to protect investors or there will be very few investors. 2. Active and open trading of shares through on the Moldova Stock Exchange MSE) (IR1.4.3.2). The MSE provides liquidity to investors and opens up opportunities to new investors. Given the right code of conduct for the broker/dealer community and effective self-regulation, the MSE can also perform depository, clearing and settlement and transfer agent functions for the capital markets. 3. Self-regulating organizations of broker/dealers must be established and authorized to have oversight and take enforcement actions regarding their members (IR 1.4.3.3). Self-regulating organizations can greatly reduce State costs of supervision by reducing its burden. They can also direct the State to investigate situations beyond the control of self-regulation. 4. Companies raising

capital through IPOs or alternative processes (1.4.3.4). The final proof of a securities system is that companies use it to raise investment capital. Those four sets of intermediate results are sufficient to produce a transparent and open securities system.

## **II. Overall Progress to Date**

A market-based financial system, using price to allocate financial resources, is critical to channel resources to the most efficient enterprises and to support the development of the private sector. Efficient financial intermediation in Ukraine requires, among other things, development of the financial infrastructure and human capacity to facilitate financial intermediation and commercial lending. This infrastructure requires effective bank supervision, efficient funds transfer, a sound legal and regulatory foundation, an accounting system that accurately measures profitability and financial condition, and a broad-based money market (government securities, interbank funding). The National Bank of Ukraine (NBU) has made some progress in developing the infrastructure for a safe and sound banking sector in which banks are able to pay a true intermediation role. Specifically, it has developed a bank supervision capacity, including improved accounting and reporting. In addition, a system for secured lending (collateral registry) has been implemented. All this work is critical to developing a larger number of viable banks as opposed to the current situation in which many of the banks may not be solvent and some serve as little more than adjuncts to company treasuries.

Effective, safe and transparent capital markets are essential elements of a market economy. They are critical to an economy, such as Ukraine's, that must make massive changes in the ownership of productive assets and that must restructure company operations in order to become competitive in world markets. For privatized companies, capital markets facilitate ownership changes that, in turn, allow corporate governance to begin to change company behavior and performance. For new companies, capital markets permit investment to be raised on competitive and transparent terms. Both processes are essential to and accelerate the economic transition.

Capital market infrastructure development is being sequenced to reflect the needs of the market. In the early stage of direct buyer-seller privatizations and in the immediate post-privatization period, independent registrars are most important to guarantee that share ownership is formalized and recognized by the company concerned. Later, as broker/dealers start serving as intermediaries for buyers and sellers, organized trading places (exchanges and over-the-counter) are needed to ensure operational efficiency and transparency. Subsequently, as volume rises, and to assure that transactions close safely, trading mechanisms require clearing and settlement facilities to ensure delivery vs. payment, sound oversight of the market as a whole, as well as self-regulation by a growing number of market participants.

Ukraine's capital markets structure underwent significant changes last year, the most

noteworthy the approval by Parliament of a strategy for capital market development that stresses sound principles of competition and regulation, and the establishment of the Securities Regulatory Commission (SRC).

Financial reform activities are coordinated with EU/TACIS, the World Bank, the IMF, the British Knowhow Fund, the National Bank of Netherlands and the Government of Ukraine (GOU).

There have been significant results to date.

- **Financial infrastructure promotes confidence in the banking system:** The NBU has laid a basic framework for prudent regulation of banks, including capital adequacy requirements, liquidity standards, restrictions on lending to one borrower, asset classification, and requirements for loan-loss reserves. The NBU has also closed insolvent banks. All of these actions will promote confidence in the banking system. Liquidity of the financial system is enhanced and the system less fragile since the NBU's Interbank Payment System is fully functional. Technical execution of payments now takes minutes rather than weeks. Moreover, skills of bankers are being enhanced through participation in the National Center for the Training of Bankers. Approximately 1,750 employees from over 100 banks have attended training at the National Center for Training Bank Personnel, which was created with substantial investment and support from the NBU.
- **Government macro and structural adjustment policies support market reform:** Under the IMF agreement, Ukraine is keeping its budget deficit in a manageable range so that inflationary expectations are dampened. This, in turn, has led to a deceleration of inflation and real economic growth is projected to be neutral or even slightly positive for the first time in several years.
- **Transparent and open securities system established:** The Parliament approved a broad strategy, drafted largely by USAID, that establishes an open and competitive structure for the long term evolution of capital markets in Ukraine. An Association of Investment Businesses has been established, uniting 140 investment funds and trust companies, that subscribe to a code of conduct, and the Association disciplined its first member in March, 1996 for false advertising. Temporary share registries are operating at 26 privatization auction centers around Ukraine and over 50 private, independent share registrars are now established. Regulatory proposals to ensure uninhibited re-registration of share ownership are before the Government. Work to improve the operations of nine model private, independent share registrars is complete. More than 450 directors of private enterprises received training on the principles of shareholder rights. A Securities Commission has been established with USAID support, including a strong twinning relationship with the U.S. Securities and Exchange Commission. An Over-the-Counter trading system (OTC) and a self-regulatory organization to govern it have been established, with live trading

beginning in June 1996.

**Key issues impeding progress:** The GOU continues to use the banking system to fund nonviable state enterprises. The continuation of directed lending, compounded by the potentially troubled financial condition of the banks, is making their situation increasingly acute, which increases the likelihood of the failure of the most unsound banks. The early stages of development of the supervisory capacity of the National Bank of Ukraine means that those banks will probably not be identified early enough to prevent their failure. The slow progress in developing accounting standards needed to accurately analyze the financial condition of the banks and their enterprise debtors also prevents the identification of problem banks. The legal infrastructure must be further refined to empower the bank supervisory authority to take action. Although a new banking law is under consideration, the timing and final form of its enactment is in doubt.

To prevent the manipulation of ownership records by company managers, there is an urgent need for legislation or a Presidential Decree to require all enterprises with over 500 or 1,000 shareholders to maintain share registries with independent share registrars. Ukraine has taken the laudable step of establishing a Securities Commission early in the transition, but the Commission only has authority to coordinate the market oversight activities of other state bodies; it does not have sufficient independence to assure impartial regulation. To be effective, the Commission needs to be given sole authority for overseeing the securities market and the power to enforce regulation over market participants. USAID and the World Bank are collaborating to assist the GOU to provide this authority by Decree by September, 1996. Government oversight is costly and can be complemented by self-policing on the part of industry members. Additionally, organized industry associations are the best vehicles to channel market participants' expertise and concerns to the regulators. Both functions are best performed if such associations are given the status of self-regulatory organizations, i.e., are empowered by the government to perform some of the otherwise governmental functions. While it is likely that the Securities Commission will delegate some or many of these authorities, self-regulation is a new concept to many market players and continued assistance will be needed to institutionalize the practice.

### **III. ENI's Significant Contributions**

In the banking sector, USAID's emphasis is twofold: developing the financial infrastructure, and transferring fundamental Western banking techniques to Ukrainian bankers.

USAID has a multifaceted program of support for bank supervision through several policy advisors. USAID is providing lawyers from Office of the Controller of the Currency (OCC) and the Federal Depositors Insurance Corporation (FDIC) to work with Ukrainian counterparts in bank inspection, and is providing Federal Reserve specialists in licensing to help the NBU with relicensing of banks in the face of new capital adequacy requirements. Support to the NBU will be continued to enhance its electronic funds payment system by

providing assistance in disaster recovery planning. Further assistance will help the NBU to develop its Treasury issuance capacity and familiarize Ukrainian specialists with the U.S. market. In addition, USAID is providing high level macroeconomic assistance the the Governor of the NBU through HIID, while at the same time working at the staff level at the Economic Research Department. The British Knowhow Fund is working in the area of accounting reform, which USAID supports. Finally, USAID is developing a pilot collateral registry among the banks and through the interbank payment system, a necessary pre-condition for encouraging banks to lend to the private sector.

USAID is also helping develop human capacity through support for the National Center for Training Bank Personnel, an institution created with substantial investment and support by the NBU. Middle level Ukrainian bankers receive professional training in many skills needed to develop a revitalized banking sector. USAID has just started an evening curriculum for entry level staff. In addition, USAID assistance is providing a resident economist to help develop the institutional capacity of the NBU economic research department and U.S. bank supervisors have begun working with Ukrainian supervisors to develop capacity at the NBU to analyze and monitor risk and enforce prudential regulations. A U.S. Treasury team funded by USAID is helping the NBU develop the government primary and secondary securities market.

Toward the establishment of a securities system, USAID is providing technical assistance, training and equipment to 1) monitor the activities of investment intermediaries, 2) establish a self-regulatory association within the investment fund industry, 3) support model investment companies to increase the industry's professional standards -- disseminating the experience through the industry association, 4) establish independent share registries, 5) educate managers of privatized enterprises and the public on shareholder rights, 6) establish a national over-the-counter share trading system, owned and operated by a broker/dealer self-regulatory organization, and, most recently, 7) develop Ukraine's newly established Securities Commission.

USAID is assisting the new SRC on the development of its regulations and oversight capacity with the support of full time legislative regulation drafting and monitoring and enforcement advice. It is also providing it with up to date information and market analyses through the Capital Markets Monitoring Unit. Most of its board members are also receiving specialized training courses in the U.S. and other NIS countries along with a program that provides ongoing support to the Commission via a cooperative program of orientation and training with the U.S. Securities Exchange Commission. USAID is also providing technical assistance, training and equipment establishing independent share registries in Ukraine, educating managers of privatized enterprises and the public on shareholder rights, and establishing a national over-the-counter share trading system, owned and operated by a broker/dealer self-regulatory organization.

#### **IV. Expected Progress in 1997 and 1998**

USAID expects that in 1997 and 1998 banking laws and regulations will be improved, banks' statistical reporting will be strengthened, and a mechanism will be developed for dealing with problem banks. The disaster recovery capacity of the EFPS will be strengthened and the system further refined.

The Economic Analysis and Statistics Department at the NBU will develop the economic statistical base, produce a publication with timely analysis of economic events, and develop staff skills to conduct rigorous, longer run quantitative and qualitative economic research.

The National Center for Training Bank Personnel will become a self-sustaining entity, new courses will address specific needs of the banking landscape such as problem loan management, and the first Ukrainian library of basic banking and financial reference material will be developed. Ukrainian banking inspectors will become proficient in the use of the USAID-developed inspection manual. The achievement of all this will mean that Ukrainian bankers will have the knowledge and skills to operate and maintain oversight over a market-oriented banking sector.

USAID expects that a system for secured lending on a national basis will be developed on a central basis for potential lenders beyond the commercial banks. This will enhance lending opportunities for the private sector.

A system for government securities issuance and management will be developed.

Strengthen the Securities Commission as the sole regulatory authority over Ukraine's capital markets with the powers and capability to enforce regulation and the independence to ensure impartial market oversight. Train staff and equip the Commission.

Establish a stronger legal requirement for the use of independent share registrars and strengthen the registrar industry.

Initiate organized over-the-counter trading of shares with rules and code of conduct adhered to by the participating broker/dealer community.

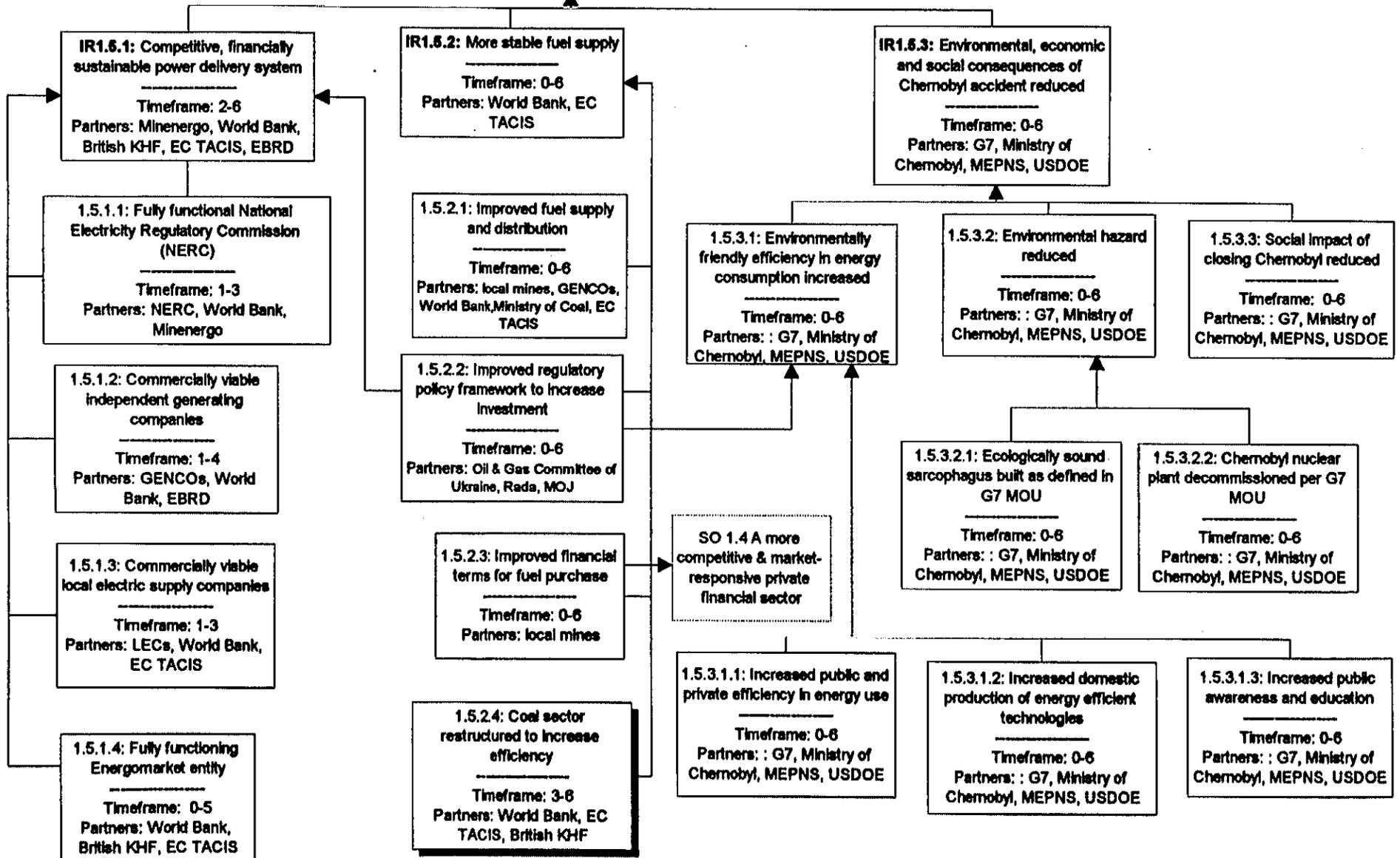
Institute depository, clearing and settlement, and transfer agent functions in Ukraine's capital markets.

Assure that shareholder rights are widely understood and increasingly respected.

Increase the extent to which corporate governance contributes to the restructuring of enterprises.

### Ukraine: SO 1.5

**SO1.5: A more economically sustainable and environmentally sound energy sector**  
 Timeframe: 0-6



57a

## **SO 1.5 A more economically sustainable and environmentally sound energy sector**

### **I. Results Frameworks**

#### **Transition Hypothesis/Underlying Rationale**

The energy sector weighs heavily on the economic stability of the country -- both from the standpoint of international debts which are based significantly on imported fuel, and also in terms of industrial capacity -- which is quite dependent on a weak-functioning power sector. Consequently, the sector is an important contributor to ENI Strategic Assistance Area 1: Economic Restructuring. In addition, in Ukraine, given the impact of the Chernobyl disaster on public health and the economics of energy, concern for environmental soundness competes in importance with concern for economic growth.

The energy sector under State control developed inefficiencies which, combined with low cost delivery to customers, made it a net drain on the economy. Ukraine is highly dependent upon imported fuel -- in particular, oil and gas -- for generators and is in arrears on its payments. Domestic coal is an option for part of the fuel needs, but costs are high as the industry was a State monopoly. Poor distribution systems amplify the problem and the net result is a very unpredictable fuel supply for generators. The power delivery system will improve the financial sustainability of the system and in turn, to date, has not been profitable without State subsidy. Despite restructuring and introduction of market forces significant work remains on improving financial systems and payments, as well as restructuring old debt.

Power sector policy changes combined with a regulatory commission to implement market rules will improve the financial sustainability of the system. Although, to date, this has not encouraged private investment, it is expected that reduced costs through competition will result. Policy changes have begun the process of establishing customer prices for energy to provide revenues to replace State subsidies. In terms of fuel resources, the GOU introduced policy changes to restructure the Coal sector; much work needs to be done to implement these changes. Optimally, both policies and prices will begin to influence the consumer toward greater efficiency as well as the energy investor towards environmentally sound, more efficient technologies. Part of any energy strategy in Ukraine must include the final solution to the Chernobyl nuclear problem, while mitigating the consequences of closing it down. Efficiency in consumption to reduce the demand of energy, protection against environmental hazards and employment adjustments will lessen the environmental, economic and social consequences of putting it to bed in its sarcophagus.

Ukraine needs energy at competitive prices for industry to compete in international markets. Through the right policy and regulatory environment, private investment can bring efficiency and competition to the sector in order to lower prices. The same strategy applies to the fuel

supply as to the power delivery system because both contribute to lower costs. The transformation to a sustainable, market supported industry must evolve within an environmental framework in which external environmental costs no longer accumulate into economic and social disasters.

### Critical Assumptions

- a) The independent regulatory commission will successfully avoid the liability of nepotism, applying technical over political criteria in its implementation of market rules. It will also be sufficiently independent of government influence to gain the respect and trust of private investors.
- b) There will be sufficient momentum from market forces, and sustained political will, to overcome the current payments problem in the sector, chronic throughout the economy, specifically there must be an environment in which State bodies that fail to pay, are penalized.
- c) The World Bank with additional donor support and GOU sponsoring will be successful at addressing the most critical problems of coal restructuring, and in particular, more closures.

### Causal Linkages

Achievement of SO 1.5 will be measured by conformance to international environmental standards. As the sector approaches profitability it becomes more sustainable. As the sector comes into conformance with G-7 requirements for addressing the Chernobyl problem, self-imposed environmental standards of private multinational companies, and/or nationally defined State standards for environmental protection, the sector becomes more environmentally sound.

There are three Intermediate Results required to achieve the SO: 1. There must be an independent, financially sustainable power delivery system (IR1.5.1), 2. There must be a more stable supply of fuel (IR1.5.2), and 3. The environmental, economic and social consequences of Chernobyl closing must be mitigated (IR1.5.3). An independent, financially sustainable power delivery system, given a more stable fuel supply adds up to a sustainable energy sector. The focus on Chernobyl will leverage changes in industrial and household energy consumption toward efficiency, environmental protection and the merger of economic and environmental priorities.

**IR1.5.1: Independent, financially sustainable power delivery system.** There are five intermediate results that will improve the delivery system.

1. An improved regulatory policy framework will increase investment. Included in that framework will be the authorization and regulations governing the establishment of an independent electricity regulatory commission. Other policies governing controls or lack of

controls over private sector investment operations must be spelled out. (IR 1.5.2.2)

2. A national electricity regulatory commission must have sufficient power to implement market rules within the power sector so that subsidies are eliminated and real costs bring real prices into line. It must define and apply the rules governing competition so that prices drop to market levels (IR1.5.1.1)

3. Electric generating companies must be independent and competitive. Regardless of ownership, the State subsidy must dissolve into a competitive environment in which Regional Dispatch Companies and local energy companies have the freedom to solicit bids among competitors for generation contracts. (IR1.5.1.2)

4. Local, electric supply companies must be commercially viable. Local companies must have a customer base that produces revenue in excess of costs (IR1.5.1.3).

5. Increased capital flow into the power system. In order for the energy sector to achieve commercial viability and long term economic sustainability, there must be additional investment in the sector. The greater the percentage of that investment that is private, the greater the probability that the sector is approaching sustainability (1.5.1.4).

IR1.5.2: A more stable fuel supply will be measured by the average percentage of a 30 day reserve requirement available at the 17 primary generating plants in the country. That level of stability in fuel supply will be created by four intermediate results as follows:

1. Improved fuel supply at the source and improved distribution. Often the problem is that the petroleum or coal is simply not available because of management, quality or technical problems at the source or in the distribution system (IR1.5.2.1)

2. Improved regulatory policy framework to increase investment. This result is as necessary on the fuel supply side of the results tree as on the power delivery side. Policies must expose the State monopolies to competition on an equal footing with the private sector in order to attract private investment (IR1.5.2.2).

3. Improved financial terms for fuel purchase. Ukraine has aging fuel purchase contracts that are out of date and out of line with current market prices. The GOU is in arrears and the financial cost of the debt needs to be restructured to a more rational basis (1.5.2.3).

4. The coal sector is reformed to increase competition. The World Bank is addressing this issue to break the State monopoly and lower costs through introducing private sector competition. Coal is a domestic source of fuel that could contribute to reduced dependence on foreign fuel, reduce fuel costs, and produce a stable supply.

IR1.5.3: Environmental, economic and social consequences of Chernobyl closing reduced. This result will be measured by containment of environmental threats, compensation in

energy efficiency for the loss of the generating load, and reduced social impact on plant personnel and community. There are three intermediate results necessary to achieve that:

1. The first is environmentally friendly efficiency in energy consumption (IR1.5.3.1.) This IR will produce a drop in energy demand to compensate for taking Chernobyl off line. IR1.5.2.2: Improved regulatory policy framework to increase investment will promote investment in environmentally friendly technologies that consume less energy. IR1.5.3.1.1 through IR1.5.3.1.4 all contribute to the efficiency result. Increased public awareness and increased domestic production of energy efficient technologies, increased public and private efficiency in consumption will produce a drop in energy demand.

2. The second is that the environmental hazard of Chernobyl must be reduced. (IR1.5.3.2). The two necessary results are IR1.5 which involves building the sarcophagus for enclosing it to ecologically sound standards as defined by the Memorandum of Understanding (MOU) between Ukraine and the G-7 countries, and , IR1.5.3.2.2 decommissioning of the nuclear power plant as per the same G-7 MOU.

3. The third is that the social impact of closing Chernobyl is lessened through, for example, re-employment of Chernobyl Nuclear Power Plant employees.

## **II. Overall Progress to Date**

The Ukrainian power sector is one of the largest in Europe -- 54,000 installed megawatts -- and is critical to the industrial capacity and economy of the country. Ukraine inherited inefficient industries from the former Soviet Union that require enormous energy consumption. Fully 60% of all energy produced is consumed by industry. Given severe financial, management and resource allocation problems from the old command system, the sector was in poor condition and without working capital to pay its employees and fuel suppliers. The development and implementation of a market structure for the generation and sale of electricity is critical to address these problems and is currently well underway. Since 1993, USAID has been providing critical assistance to transform the power sector to a market system under a major multilateral technical assistance and loan program coordinated by the World Bank and the Ministry of Power and Electrification (Minenergo). For this program to be successful, the substantial debts of the sector must be restructured, appropriate financial management and accounting systems must be introduced, and the problems of non-payment (both historical and current) be addressed.

Ukraine depends heavily on foreign fuel sources, particularly Russia, importing more than 80% of its gas and more than 95% of its oil, and it has built up over \$1.7 billion in energy debts since independence. Those debts have been financed almost entirely by using credits from international donors. Additional foreign aid and well over half of the country's hard currency reserves go to maintain imported fuel levels. The power sector consumes a substantial portion of these fuels. Domestic sources of oil and gas are not substantial enough

for self-sufficiency, and their potential has not been fully explored in large part due to a less than optimal investment climate. Ukraine also has imported large amounts of coal despite sizeable deposits in-country because of poor delivered quality and inefficient distribution mechanisms. The coal sector, probably even more so than the power sector, is suffering from the effects of a command economy and requires significant restructuring, including the closing of many mines and a substantial divestiture of non-productive social assets.

Recently, the Government of Ukraine has introduced a policy for restructuring in concert with the World Bank. Much technical assistance and financial support will be needed in this area, and the work has not yet begun.

Nuclear power holds great potential as an energy source, but it is problematic due to the Chernobyl accident. Chernobyl is a prime example of resource mismanagement that has resulted in environmental degradation and significant economic costs. In collaboration with the EU and Ukraine, USAID is providing critical technical expertise and consulting advice as part of an intensive program to develop an Action Plan to address the impact of the closure of the Chernobyl Nuclear Power Plant. The social impact of the closure is a high priority for Ukraine.

Energy assistance is coordinated in Ukraine by the World Bank, with assistance from the British Know How Fund, the EU, EC/TACIS, Switzerland, the Netherlands, Canada, Japan, and the U.S. USAID is the primary provider of assistance to restructuring the power sector.

Results to date include:

- Ukraine's eight vertically integrated regional monopolies which controlled power generation, transmission and distribution were broken up into 33 joint stock companies with a common high voltage network.
- The wholesale electricity market began operation on April 10, 1996, making Ukraine the only country in the region with a competitive market under the structure of an independent regulator.
- There are now four joint stock generating companies competing with one another for the wholesale market, as well as 27 local joint stock electricity companies (LECs) which must compete on the retail end to distribute and sell electricity to consumers.
- A national electricity regulatory commission (NERC), the first of its kind in the region, has been created to oversee fair competition among the newly created companies and to ensure reasonable tariffs to customers and producers.
- A power "Energomarket" electricity pool has been organized to act as a central, financial clearing house and national dispatch center for the allocation of energy and payments.

- The overall efficiency of the eight largest fossil fuel power plants in Ukraine has been increased by 3-5% per year through the provision of equipment and technical assistance, representing \$48 million in potential savings.
- The capacity of the city of Kiev's primary power plant that provides steam for heating and industrial production has been doubled through the provision of critical resources no longer available in the NIS economy.
- Ukraine and the G-7 have signed a comprehensive plan for the closure of Chernobyl Nuclear Power Plant by 2000.
- In the Donbass region, U.S. coal management and labor specialists are introducing new western technologies in management, coal production and clean coal utilization projects.
- Ukraine's State Committee on Geology was provided with hardware and software to facilitate information exchanges with potential western investors on natural gas and oil deposits .
- Select coal mines have been provided with assistance on better techniques for marketing their coal, including model contracts.

Key issues impeding progress include: (1) A chronic problem throughout the economy, including the power sector, is that payments are often made by barter instead of cash, they are frequently late, and sometimes they are not paid at all. This undermines the ability of the system to collect cash to sustain itself, and has caused the energy debt to grow. (2) Currently, almost half of retail electricity consumers are entitled to some sort of subsidy regardless of actual need. A more targeted subsidy is required. (3) Continued political support is necessary to ensure the independence of the local electricity entities from local oblast governments and to see the embodiment of the current systems and policies into formal legislation. (4) In order for foreign firms to succeed in setting up joint ventures in the oil and gas sectors, legislation is needed to define exploration rights in oil and gas fields, protect profits, define royalties, and divide responsibilities. (5) A government policy has been introduced for the fundamental restructuring of the coal industry, which will necessitate shutting down the most non-productive mines, reorganizing the viable ones and opening the sector to world market economic forces. Significant support in terms of funding and know-how are critical to maintain political will, particularly in view of the power of the miners' union and its resistance to change. (6) A rationalized fuels market is essential to making power generating companies competitive, and must be developed concurrently with the wholesale electricity market. Strategic Objective 1.5: A more economically sustainable and environmentally sound energy sector

### **III. ENI's Significant Contributions**

In concert with the Ministry of Power and Electrification, the World Bank, and other donors, USAID developed a multi-faceted energy program for Ukraine. Of particular note are the achievements to date in the power sector. USAID's assistance has helped transform it from a vertically integrated monopoly to a market system, with separate, competing components, a national regulatory body to set tariffs and grant licenses in response to market costs and efficiencies, and a national dispatch center to oversee power distribution based upon financial bids. USAID's direct assistance to the Generating Companies, to the NERC, and to twelve of the 27 LECS, has been a primary factor in reforms to these entities and in their ability to function under the new market rules. More specifically, we have worked with the GENCOs in their corporatization process (i.e., developing their corporate charters and corporate governance principles) and assisted them in the introduction of prudent financial and management information systems. We have worked with the NERC to strengthen their regulatory functions and to develop the capacity to carry out their independent role in the market (developing licenses and tariffs). Our work with selected LECs is more recent, but already instrumental in identifying the parameters of their non-payment problems with customers as a preliminary step to introducing better collection procedures. Our work with the national dispatch center has been less pervasive, but has nonetheless been instrumental in identifying problems in the payment system and has led to the development of a \$300 million loan from the World Bank which will help fund the purchase of fuel and spare parts for the GENCOS.

In terms of developing a more stable supply of energy resources, this work has been is at an earlier stage. Owing to the absence of a comprehensive policy on coal sector restructuring by the government, which has been developed recently, we had not committed significant resources to this area. We have had successes in the area of coal cleaning, which is extremely important for increasing efficiency and environmental benefits to the restructured sector. We have also just begun work in coal marketing and coal bed methane development; where we hope to show significant contributions this year.

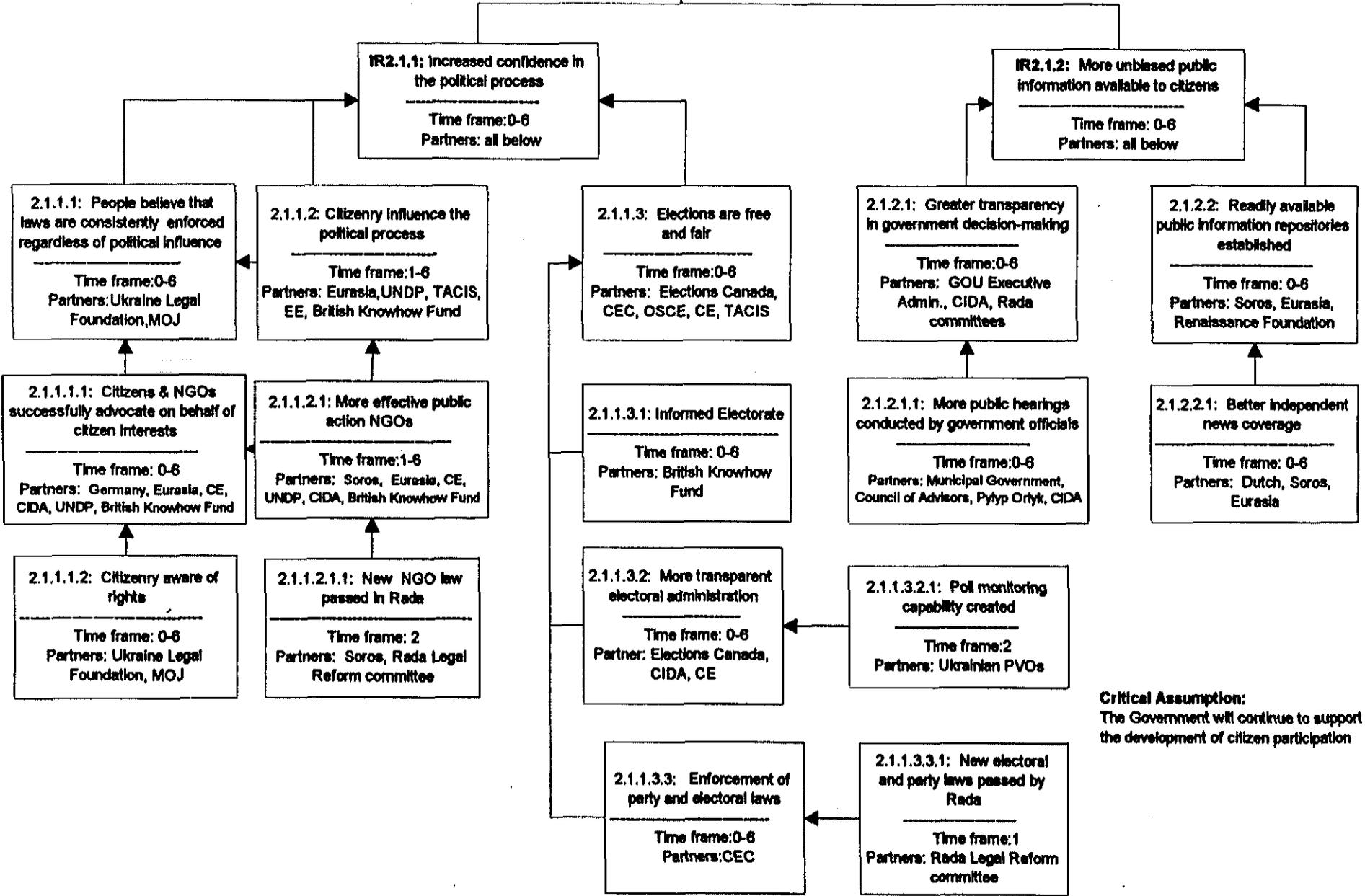
#### **IV. Expected Progress in 1997 and 1998**

- Domestic fuel development will continue through the application of market principles, particularly in the area of improved private contracting for coal. Additionally, we expect substantial private investment in the coal bed methane area which will not only provide safety and environmental benefits, but should be an alternative energy source.
- Investment in oil and gas will be promoted through introduction of new policies and laws favorable to private investment that encourages participation of investors and international partnerships and exchanges.
- The NERC will be operational, with Consumer Councils functioning in all 25 Oblasts in Ukraine to ensure consumer rights protection.

- The wholesale market will effectively substitute for the current command economy structure so that electricity will be freely bought and sold in Ukraine in accordance with market principles, and the power sector will be self-sustaining.
- Generating companies will begin functioning as independent, investor-owned utilities operating within a market context.
- The local electricity companies will become fully restructured to function as independent, profitable and consumer-oriented companies.
- Both the generating and local electricity companies will begin the process of privatization, with adequate capital for needed investment.
- The power sector will increase efficiency through competition strengthened by better supply and demand mechanisms, such as demand side management to rationally reduce peak electricity demand.
- Progress toward reducing the environmental, economic and social consequences of the Chernobyl accident will be achieved through a comprehensive program to increase energy efficiency in municipalities, in industry, and through the exploration of alternative energy sources. Programs to increase citizen awareness and efficiency in consumption, and to advance the domestic production of energy efficient technologies will continue, as will programs to improve energy efficiency in industry and the public sector. Implementation of the Action Plan to reduce the social impact of the closure of Chernobyl will proceed. Other activities undertaken as part of the G-7 MOU will include efforts to reduce the environmental hazard of nuclear waste and the construction of an ecologically sound sarcophagus around Reactor Number 4.

Ukraine: SO 2.1

**SO2.1: Increased, better-informed citizens' participation in political and economic decision-making**  
 Time frame: 0-6



**Critical Assumption:**  
 The Government will continue to support the development of citizen participation

622

## **SO 2.1 Increased, better-informed citizens' participation in political and economic decision-making**

### **I. Results Framework**

#### **Transition Hypothesis/Underlying Rationale**

The underlying rationale for this strategic objective is that citizen participation in political and economic decision-making is fundamental to building a democracy. Citizens' participation has a twofold effect in a democracy: it helps keep government transparent, and it educates citizens to become better at self-governance. It is the substance of democracy, and form without substance can degenerate into autocracy under another name. Given Ukrainian history of top down, political and economic decision-making and service to the state, changing people's expectations and behavior to accept that the state is responsive to influence by the people is a major transition. The state will behave differently if it experiences dependence upon the will of the people and real change as the result of citizen participation. Citizens will behave differently if they take the risk of making change and succeed. The way to create that kind of experience for Ukraine is to help develop the policy and legal framework to allow it, encourage citizens to become aware of and act on their rights, and organize citizens' groups to enforce those rights. Citizen enforcement of their rights is dependent upon the rule of law, transparency in its application, and public access to information required to defend their rights.

USAID has chosen to support this effort because as the people gain experience in self-governance they increase social and economic stability. Democracy has the advantage of responding to a changing environment while maintaining stability by means of a set of agreements about citizen involvement in the change process.

#### **Critical Assumptions**

A major critical assumption is that the government will continue to support, rather than resist, the development of citizen participation in economic and political decision-making. Interference with citizen participation, should it occur, would either turn the clock backwards or generate sufficient social unrest to force the clock forwards again, though at considerable social and economic cost.

#### **Causal Linkages**

The Mission will measure achievement of the strategic objective through public opinion polls and by the number of people who actively participate in NGOs with agendas in the political and/or economic arenas. There are two intermediate results necessary to sway public opinion and increase public involvement in NGOs: IR2.1.1 Increased confidence in the political process, and IR2.1.2 More unbiased public information available to citizens. If the general public believes in the political process, including belief in the legitimacy of their role

in it, and they have access to information making government operations transparent as well as access to information necessary to influence government, their participation will increase.

Public confidence in the political process (IR2.1.1) will be increased by three sets of intermediate results: (1) people believe that laws are consistently enforced regardless of political influence; (2) citizens influence the political process; and (3) elections are free and fair. The existence of free and fair elections, the experience of citizen influence in the political and legislative processes, and the belief in impartial application of the law will generate increased confidence in the political process.

People will believe that laws are consistently enforced if citizens and NGOs successfully advocate on behalf of citizen interest (IR2.1.1.1.1), and if the citizenry influences the political process (IR2.1.1.2). In other words, the test of consistency is successful reversal by advocacy groups of inconsistent application of the law and active intervention in the lawmaking process to both select law makers and help craft laws for consistent application. Citizens and NGOs will successfully advocate on behalf of citizen interests (IR2.1.1.1.1) if citizens are aware of their rights in the first place (IR2.1.1.1.2), and if the country has more effective public action NGOs (IR2.1.1.2.1). There should be an increasing number of NGOs, federations, coalitions, and other NGO umbrella organizations formed to promote or oppose specific pieces of legislation. An initial result is required, however, to facilitate NGO development and that is a new NGO law passed by Parliament (IR2.1.1.2.1.1).

More effective public action NGOs, supported by an NGO law (IR2.1.1.2.1.1), will produce the results of citizenry influence on the political process (IR 2.1.1.2), which contributes to the people's belief in the consistency of law and increased confidence in the political process.

The third set of results contributing to the achievement of increased confidence is IR2.1.1.3 Elections are free and fair. Both international monitors and at least one domestic NGO poll monitoring group will contribute to the measurement of those results. Their expert opinion will be backed by poll counts compared to official election outcomes. Three sets of results are necessary to achieve free and fair elections. (1) The electorate must be informed about candidates and platforms (IR2.1.1.3.1). Splinter parties and platforms made of platitudes neutralize the power of elections to express public opinion. The public must force candidates to define their stand on specific issues to reclaim that power. (2) There must be more transparent electoral administration (IR2.1.1.3.2). The people must see their complaints investigated and some percentage adjudicated to confirm transparency of the electoral process. An intermediate result to help create that transparency is IR2.1.1.3.2.1 Poll monitoring capability created. An NGO must have the capability to monitor the polls in order to verify that elections are administered freely and fairly. (3) Last but not least, there must be real enforcement of the rules governing behavior of the political parties and of those in charge of the electoral process (IR2.1.1.3.3). Effective enforcement requires IR2.1.1.3.3.1: New electoral and party laws passed by Parliament. An informed electorate supported by a more transparent electoral administration and electoral and party law

enforcement will produce free and fair elections.

Two sets of intermediate results are necessary to produce IR2.1.2 More unbiased public information available to citizens. They are IR2.1.2.1 Greater transparency in government decision-making, and IR2.1.2.2 Readily available public information repositories established. Greater transparency in government decision-making is supported by IR2.1.2.1.1 More public hearings conducted by government officials. Transparency of government decision-making is measured by the public availability of copies of draft legislation and the number of cities holding public hearings on legislation.

The information repositories indicated in IR2.1.2.2 include both hard copy and electronic access to non-government archives, libraries and data bases. The quality of information in those repositories depends upon IR2.1.2.2.1 Better independent news coverage. In short, there will be more unbiased public information available to citizens when there is citizen access to insider information on the legislative process, the opportunity to influence that process, and access to non-government controlled information resources for the necessary research to influence effectively.

## **II. Overall Progress to Date**

During 1994, free and fair elections were held for the Presidency, the Parliament, and councils at the oblast and local level. However, new legislation governing elections and political parties is needed to improve the political process and the public's trust in it. Independent media began to develop following Ukraine's independence and scores of independent newspapers, radio stations, and local TV stations now exist. Furthermore, advertising revenues are increasing to the extent that it will soon be possible for independent media to be profitable. The government, however, still exerts considerable influence over the media through ownership of the two national TV channels, legal regulation, licensing oversight, and distribution of vital resources. Non-governmental organizations (NGOs) are forming rapidly in Ukraine and the sector is developing with associations of NGOs forming in some cities and with foundations being established to allow businesses to support charitable activities. The lack of legislation concerning taxation and registration of NGOs, as well as the citizens' lack of experience with a civil society, continue to hinder the development of NGOs.

Results to date include:

- **More effective public action NGOs:** Public policy and human rights NGOs are being strengthened through training and small grants. Their activities include investigating human rights violations, conducting regular and well-publicized opinion polls, publishing a public policy journal and producing a popular political TV program. Women's NGOs are being fostered to address key issues such as domestic violence, legal inequality and women's entrepreneurship.

- **Citizens and NGOs successfully advocate on behalf of citizen interests:** Town hall meetings have been organized in support of the drafting of the new Constitution, a civil code and a wide variety of legislation. The Ukrainian Association of Cities is now lobbying the central government for greater decentralization.
- **Elections are free and fair:** Comprehensive USAID support in 1994 contributed to the democratic election of current officials in all branches of government throughout Ukraine.
- **Better independent news coverage:** A daily television news program, free-market economics program, and other informational programs are being produced independently and broadcast nation-wide. Independent local TV and radio stations are being supplied with high-quality programs and staff training. A network of twenty-six Press Clubs has been developed throughout Ukraine where journalists can meet on a weekly or biweekly basis with officials from the Government of Ukraine (GOU) to discuss different issues of privatization and economic reform. Weekly meetings at the Kiev Press Club are shown nationally during the main news program on UT-1, providing a very effective means for GOU officials to reach a large audience.
- **More public hearings conducted by government officials:** Public hearings have been conducted at the municipal level, making information available about local budgets and other municipal issues.

Key issues impeding progress include the need for greater transparency and accountability in the legislative process, the need for greater economic and political independence for the media, the lack of public confidence in the political system, and the need for rationalized laws.

### **III. ENI's Significant Contributions**

USAID is promoting the active participation of citizens in political and economic decision-making through support to civic action groups, public policy NGOs, political parties, and democratic free trade unions. USAID assists government entities with improving election administration, drafting electoral legislation, and educating the public of the democratic process. An indigenous NGO has provided domestic poll monitors for the last several rounds of elections. USAID has provided support to a Rada committee which has completed the draft of a new election law. Lawyers from USAID-supported organizations are bringing cases to court on behalf of citizens and have won several cases. USAID supports the production of non-state daily and weekly news programs which are broadcast nation-wide. With the support of a USAID grantee, Ukrainian independent TV stations are in the process of forming the country's first independent television network. USAID has supported town hall meetings and several TV shows on the Constitution featuring prominent government officials, making the constitutional debate more transparent before the anticipated

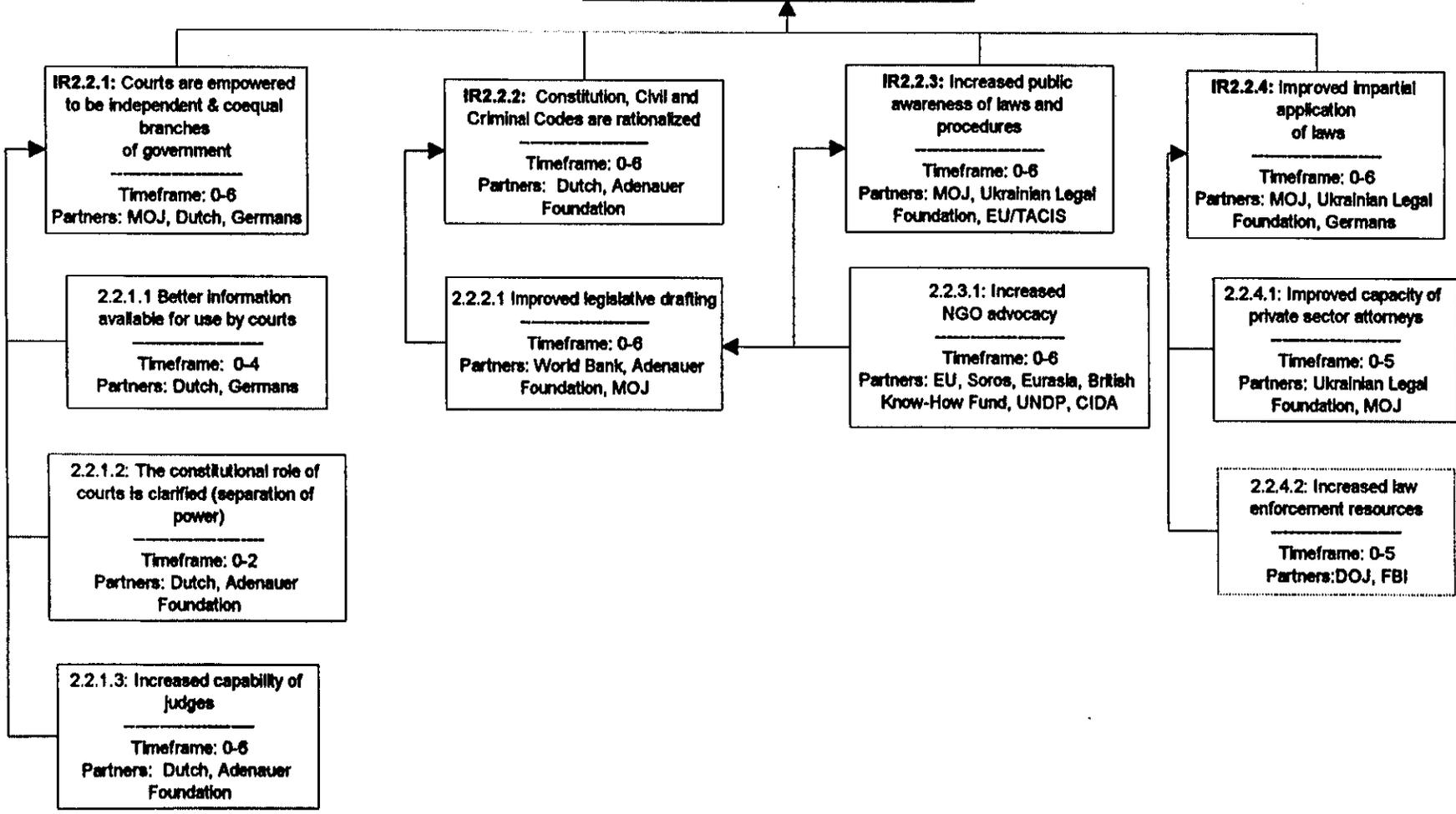
national referendum.

#### **IV. Expected Progress in 1997 and 1998**

- Active citizen and NGO participation in the adoption of new legislation, including a new NGO law.
- Implementation of an improved election law that addresses current shortcomings such as the 50% minimum voter turnout required to validate an election.
- Greater participation and success in elections of political parties, as opposed to independent candidates.
- Greater debate and media coverage throughout Ukraine of the issue of women's role in Ukrainian society, catalyzed in part by women's NGOs.
- Increased NGOs and membership as related to the provision of services and policy advocacy.
- Establishment of a network of non-state self-sustaining TV stations.
- A registered domestic poll monitoring capability created.

Ukraine: SO2.2

**SO 2.2: Create legal systems that better support democratic processes and market reforms**



67a

## **SO 2.2 Create legal systems that better support democratic processes and market reforms.**

### **I. Results Framework**

#### Transitional Hypothesis/Underlying Rationale

In order for Ukraine to transition to a democratically-based market economy a new popular-based legal structure must be created and it must be consistently and predictably applied. Legislation, particularly the rules governing commerce, need to be clarified and consistently enforced in conjunction with a reduction in official corruption and organized crime so that the Ukraine will be able to attract the investment necessary to rebuild its economy. In order to be credible, the new legal framework must be developed through a transparent process and in a way that guarantees citizens' ability to be key partners in the process (both through the direct influence of advocacy groups as well as through representative elected officials).

Creating a new democratic and market-based system will require the creation and enforcement of a legal regime that ensures that courts of law are able to operate free from undue political influence. Strengthening legal administration will, in turn, require that the judges gain the expertise that will be necessary to effectively implement the new code of law. To ensure that the new legal system is representative of citizen interest, and can adapt over time to changing economic and political development, it is important the citizen lobbying groups are permitted to organize and are provided the skills they will need to influence the development of laws, as well as ensure that laws are fairly and transparently applied. To create the new legal system USAID is targeting its assistance against the following objectives: drafting of a new set of constitutional, criminal and civil codes that respect individual liberties and property rights; empowering and increasing the independence of the court system; increasing citizen participation in the Ukraine's legal system by making legal information widely available; and by permitting and by strengthening NGO advocacy capabilities.

#### Critical Assumptions

A critical assumption is that the government of Ukraine (GOU) will have the political will to combat organized crime and official corruption through impartial application and enforcement of the country's new framework of criminal and civil laws. A related assumption is that the GOU, in partnership with Western law enforcement agencies, such as the U.S. Department of Justice, will be successful in increasing law enforcement resources. If the government is not able to enforce the new legal system (which USAID is assisting to develop), then the laws will lose their validity and the legal system is likely to degenerate into a system based on political and economic favoritism, rather than one based on the rule of law.

## Causal Linkages

In order for the strategic objective to be achieved, four principal intermediate results must first be accomplished. These results are: Courts are empowered to be independent and coequal branches of government; Constitution, civil and criminal codes are rationalized; Increased public awareness of laws and procedures; and Improved impartial application of laws. Together the realization of these results will lead to an improved legal system in Ukraine that supports democratic processes and market reforms. A presentation of the activities underlying each of the principal intermediate results is presented below.

**IR 2.2.1: Courts are empowered to be independent and coequal branches of government.** Activities to be completed under this intermediate results include better information available for use by courts; the constitutional role of courts is clarified (separation of powers); and there is increased capacity of judges to administer the new legal framework. Indicators for the intermediate result will include measures to indicate whether the courts are free to operate independent from undue influence from other branches of government, such as judicial selection being based on the merit system (rather than based on political patronage).

**IR 2.2.2: Constitution, civil and criminal codes are rationalized.** Activities to be completed under this intermediate result include: improved legislative drafting (which is to be influenced by increased advocacy by NGOs). Indicators to measure the accomplishment of this intermediate result include having an independent opinion by someone expert in Ukrainian law assess if the constitution, civil and criminal codes are rationalized in such a way that they support democratic and market-based practices.

**IR 2.2.3: Increased public awareness of laws and procedures.** Activities to be completed under this intermediate result include: increased NGO advocacy. NGOs will empower citizens to come together around common interests and then influence the development of laws and regulations through participation in the political process. Indicators under consideration to measure the accomplishment of this intermediate result include an increase in the number of cases filed (and won) by particular legal aid groups, and increased public knowledge about particular laws.

**IR 2.2.4: Improved impartial application of laws.** Activities to be completed under this intermediate result include: improved capacity of private sector attorneys; and increased law enforcement resources. The second of these activities, increased law enforcement resources, is independently administered and funded by the U.S. Department of Justice and its success will be vital to the success of USAID's overall efforts in this sector. Indicators to measure the accomplishment of this intermediate result include an increase in charges filed in Kyiv oblast related to common theft and fraud.

## **II. Overall Progress to Date**

Ukraine has yet to pass a post-Soviet constitution and is currently being governed by a temporary constitutional agreement designed to break the deadlock between the executive and legislative branches. Although progress has been made to improve the legal system, further significant reform will depend on the adoption of the new constitution and the subsequent rationalization of Ukraine's legal system. A Constitutional Commission has submitted a final draft of a new constitution to the Parliament, but it is unclear how long the draft will be debated or by what means it will be adopted. A civil code is being drafted and should be introduced to the Parliament in the next few months. Much work needs to be done to draft, revise and adopt new civil and commercial codes, and laws dealing with every aspect of Ukrainian life, including the criminal justice system, the economy, and civil society. It is generally agreed that the leaders of the court systems and the new Minister of Justice are committed to the independence of the judiciary, upholding new laws and protecting individual rights. But due to antiquated technology, poor training, corruption, lack of transparency, and resistance to change in the regional and local courts outside of Kiev, Ukrainian citizens still do not think of the courts as the venue to redress grievances or press for respect for their rights.

**Results to date include:**

- **Constitution, civil and criminal codes rationalized:** Progress has been made through improved legislative drafting and adoption of the Constitutional Accord, incorporating the Law on Executive Power and Local Self-Government, which is in effect until a new constitution is adopted. The Constitutional Commission completed a draft constitution which was recently submitted to Parliament for review.
- **Improved legislative drafting:** Numerous working groups in the Parliament and the Presidential Administration have completed conceptual works and drafts of new legislation. Legislative drafting groups have received computer equipment to facilitate their ability to produce and revise draft legislation. Parliament deputies are receiving comparative laws and analytical information, such as an analysis of the 1995 budget amendments and the 1996 Draft Budget of Ukraine.
- **Better information available for use by courts:** In the courts, the law schools and the procuracy, the in-service training institutions and curricula are being revamped so that judges, prosecutors and future lawyers better understand the teaching and application of democratic legal structures and practices. The Supreme Court and Supreme Arbitration Court have established in-house continuing education for all judges.
- **Increased public awareness of laws and procedures.** Informational TV shows, public hearings, and printed material have improved the public's knowledge of the Constitutional and election processes. The five largest law schools, representing 80% of law students, have each received in-house publishing equipment so that their curricula can be revamped and so that students will have post-Soviet material to study, and the establishment of the Ukrainian Law Student Association and Law

Student Journal is underway.

- **Improved impartial application of laws:** Several cases have been successfully settled by lawyers representing environmental groups and trade union members, including a case in which the courts ordered an enterprise to reinstate and compensate the chairman of an independent trade union who had been fired for his union activities.

Key issues include (1) the adoption of a new constitution; (2) the need for key new laws, such as one governing the status of non-governmental organizations, protecting their right to exist and to operate free from harassment and taxation; (3) greater empowerment and independence of the courts, and (4) less corruption affecting the impartial application of laws.

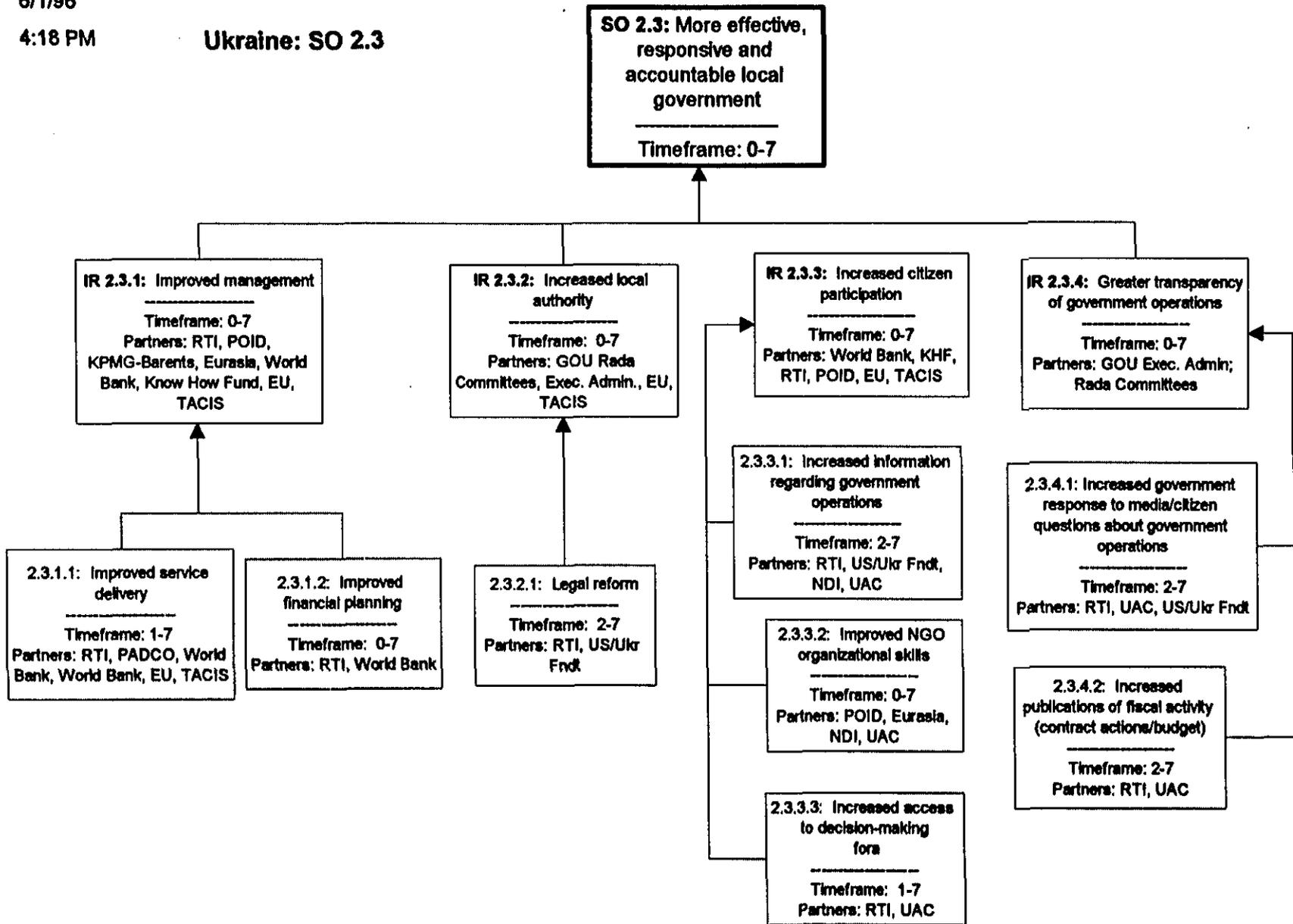
### **III. ENI's Significant Contribution**

USAID programs provide technical assistance, training and access to information, and to a lesser extent commodities, to counterparts in the Ministry of Justice, the courts, Ukraine's top law schools, the presidential administration, legal associations, municipal governments, and the Rada (Parliament), including key committees and political factions. For instance, USAID-supported activities have provided members of Parliament with research and analysis on draft laws, and an information system was designed for and delivered to the Parliament to increase access by lawmakers and the public to information, connect Ukraine with the Internet, and improve research and analysis of information. USAID support for the constitutional drafting process included sponsorship of a conference which produced significant recommendations which were incorporated into the draft constitution submitted to parliament. USAID is supporting TV programs, public hearings, and other activities designed to educate the public on the constitutional process. The Parliamentary Development Project was asked by the Economic Adviser to the Chairman of the Parliament to prepare an analysis of the 1995 budget amendments and the 1996 Draft Budget of Ukraine. The Rada Chairman reviewed the analysis and forwarded copies to members of the Parliament Presidium, heads of factions and deputy groups working on the draft of the State Budget for 1996. The five largest law schools, representing 80% of law students, have each received in-house publishing equipment so that their curricula can be revamped and so that students will have post-Soviet material to study. The Supreme Court and Supreme Arbitration Court have established in-house continuing education for all judges. USAID programs have helped to initiate court cases to protect the environment and the rights of workers, and have supported the work of human rights groups that collect thousands of complaints of human rights violations every year.

USAID coordinates its activities with those of EU/TACIS, the Government of the Netherlands, and CIDA.

#### **IV. Expected Progress in 1997 and 1998**

- Implementation of a new Constitution and new civil code.
- Adoption of new legislation including revised election law and new NGO law.
- Improved capacity of the Parliament to analyze, debate, and adopt legislation which supports the reform process through more skillful legislative drafting and parliamentary procedures.
- Improved access for lawyers and judges to current laws and procedures.
- A more independent judiciary, better able to uphold the Constitution and enforce laws.
- Addition of 26 new subjects to law school curricula, through USAID-financed in-house publishing capacity and technical assistance on curriculum design.



72a

## **SO 2.3: More effective, responsive and accountable local government**

### **I. Results Frameworks**

#### **Transition Hypothesis/Underlying Rationale**

This strategic objective contributes directly to ENI Strategic Assistance Area II: Democratic Transition. Ukraine has a long history of central planning, which is top down problem definition, project planning and implementation. One example is the way in which centrally controlled utilities and communal services make it difficult for local government officials to effectively manage their quantity and cost. The result is centrally controlled heating in cities for which the only solution in a individual apartment for an over heated room is to open the window to expensive heat loss. The configuration of the heating system makes it difficult and costly to meter and charge for heat based on use. Moreover, any one city might be totally dependent upon one source of electrical energy and that source is probably totally dependent upon a fuel supply from Russia. Problems defined and solutions designed outside of the local area tend to end up outside the control of the local area and end up being inefficient and ineffective. More effective, responsive and accountable local government combined with citizen participation will produce better solutions to local problems and provide the training ground for building a democracy. Democracy is, in part, a problem solving process and there are no better problems with which to practice that process than widespread and practical problems affecting citizens in local communities.

All staffing, office and administrative expenses of finance departments in cities are funded directly by the Federal Government, under the budget of the Federal Ministry of Finance. The local government is responsible for transportation, health, education, energy and housing. The central government, in essence, delegates authority and controls the money. As often as not, under the former regime, the central government wrote a "blank check" to cover municipal deficits. Those days are gone and several things have to happen to make local government work effectively. Local government must have increased authority to raise local revenues. It must break old habits and learn to match expenditures to revenues. It must reverse the top down planning legacy and begin some bottom up problem solving through greater transparency in its own operations and citizen involvement. USAID believes that by helping local governments meet those challenges, the quality of life will improve at local levels and democracy will become indelible in the social fabric.

#### **Critical Assumptions**

Much depends upon the passage of the constitution. In addition, three other pieces of legislation -- Law on Local Self Government, the Law on the Budgetary System, and the national budget -- are needed to codify a new intergovernmental system. In order to meet these strategic objectives, it is assumed these documents will formerly define the powers and responsibilities that are to be decentralized to local government. Most critical among these is

the ability of local governments to raise revenues, the establishment of a system of revenue sharing among tiers of government, and the creation of a transparent system of equalization and intergovernmental transfers. On the expense side, it is assumed that localities will be given the authority to establish local needs and priorities and spend revenues accordingly.

### Causal Linkages

The strategic objective is measured by public opinion. In order for public opinion about local government to improve, four sets of intermediate results must be achieved. 1. Management must improve; 2. Local authority must increase relative to the central government; 3. Citizens must increase their participation in local government planning and decision making; and 4. Local government operations must become more transparent. Those results will be achieved as follows:

**IR 2.3.1 Improved management.** The improvement in management of local government is measured by a decrease in budget deficits. That decrease will be achieved through two intermediate results. 1. Improved service delivery (IR 2.3.1.1). Local government must translate its resources into efficient services of noticeable benefit to the public. 2. Improved financial planning (IR 2.3.1.2). Local government must become better at revenue, expense and cash flow projections in order to manage the delivery of uninterrupted services as planned.

**IR 2.3.2 Increased local authority.** To keep the various Ministries and branches of central government from unduly controlling local authority, local government must have its own locally generated revenue sources as well as the ability to determine the use of those revenues. Legal reform is required to provide the foundation for local revenue generation and control (IR 2.3.2.1).

**IR 2.3.3 Increased citizen participation.** Citizen participation is required to provide oversight of management to increase the delivery of efficient service. Citizen participation also provides political support for increasing local government authority. Participation will be increased through three sets of intermediate results: 1. There will be increased information about government operations available to the public; 2. NGO organizational skills will improve to the point that NGOs will be able to influence local government; 3. Citizens will acquire increased access to the decision making fora of local government while local government officials become more aware of citizen needs and base management decision on the needs of the citizens. Information, skills and access will allow citizens to participate in decision making.

**IR 2.3.4 Greater transparency of government operations.** The government must make its operations transparent so that citizens have the necessary information to perform the oversight function. That transparency can be achieved through two intermediate results. 1. Local government must increase its response to questions about government operations by the media and other private citizens (IR 2.3.4.1). Accountability to citizens is something new

for public authorities and they must accept their obligation to respond to public inquiry. 2. Local government will increase the amount of published information about its financial activities (IR 1.2.4.2). Nepotism, graft and corruption become more difficult as contract actions and budget decisions become public knowledge.

## **II. Overall Progress to Date**

Ukraine still needs to clarify the role of local and regional government. The law on Local Self Government and State Power and Local Administrations needs to be re-written and passed by parliament in order to define the jurisdiction and powers of local government. Currently, municipal governments consists of an elected Council of People's Deputies acting as the legislature and having general oversight of the management of city affairs; a city administration headed by an elected Head of City Council ("mayor") in which executive powers are vested; and a Presidential appointee, Head of Oblast State Administration which transfers the state executive power. Nearly all local government officials lack knowledge and experience in public administration, e.g. human resource management and finance management. At present, all staffing, office and administrative expenses of the finance departments in cities are financed directly by the Federal Government, under the budget of the Federal Ministry of Finance. Thus, municipal finance systems lack incentives for effective, cost sensitive program budgeting and monitoring. However, local governments are responsible for many municipal services, such as transportation, health, education, and housing. This highlights the need for developing a transparent, consensus-based intergovernmental system that ensures revenue-expenditure balance and an independent revenue privilege. Thus there are two considerations to address: the need for local governments to be autonomous in order to decentralize power, and the need for new local government laws to be passed and enforced in order to reinforce democratic practices at the level most accessible to citizens.

Local governments are becoming the venue for the development of democratic leaders and governance, through the introduction of a variety of mechanisms such as more open budgeting, town meetings, citizen task forces, constituency outreach and local government watchdog groups. The Ukraine Association of Cities, modeled after the U.S. National League of Cities, is comprised of mayors lobbying the central government for greater decentralization with an agenda covering local level policy, intergovernmental relations and municipal service. Municipal governments are improving their financial management while becoming more transparent and accountable to their citizens.

Results to date include:

- An open, public debate is underway on several versions of the constitution, the major competing versions of which, address the issue of decentralizing to local governments considerable decision-making and revenue raising power.

- A Law on Local and Self Government is in early stages of drafting, and is expected to facilitate the implementation of the new system of national and local relations and fiscal transfers.
- Government of Ukraine officials, along with European Union experts, have prepared a cross country, cross cultural study of alternative forms of structuring national-regional-local relations. This document is expected to be drawn upon extensively in the debate and discussion of national legislation.
- Local interest groups, such as Association of Democratic Councils and the Ukraine Association of Cities have mobilized and lobbied on issues related to the decentralization of power to local government.
- Training of local officials in the areas of management, financial planning, municipal operations, and budgeting has been carried out both in-country and through cross country exchanges by a variety of organizations, both public and private. Examples include the Pylyp Orlyk Institute for Democracy, the Institute for Public Administration, Indiana University as well as a variety of USAID contractors such as Research Triangle Institute and PADCO.

### **III. ENI's Significant Contributions**

USAID developed pilot projects in three Ukrainian cities: Lviv, Kharkiv, and Ternopil which focus on municipal finance management, improving municipal administration and increasing transparency. The program also supports the Ukraine Association of Cities, which advocates on behalf of cities, and lobbies on such issues as the development of the draft Constitution and new local government legislation being considered by parliament. Training is provided to both elected officials and city administrators. Local politicians are targeted so that once elected to office, they are aware of the need to respond to constituents' problems and learn techniques for doing so. Administrators are trained in the nuts and bolts of providing more efficient municipal services.

In Kharkiv, the municipal budget for 1995 was printed in the local newspaper. In Ternopil, an Economic Development Office was established and instituted as a structural sub-committee in the city's administration. In Lviv, an estimated \$50,000 USD will be saved by the city per year in phone charges due to operation of the city phone branch exchange (PBX) system. In addition, the Ternopil municipal government restructured its aging and insufficient fleet of buses and improved public transportation management, increasing capacity by 40% and increasing revenues. With AID assistance, the city of Kharkiv began issuing municipal bonds in December, 1995. Reports indicate that over half of the bonds had been issued raising over \$400,000 for the city to use to purchase mini-buses and improve the heating system.

Mayors, city administrators, local government officials and policy makers receive the bulk of the training through these programs but the ultimate beneficiaries are the public through improved services and more responsive government.

#### **IV. Expected Progress in 1997 and 1998**

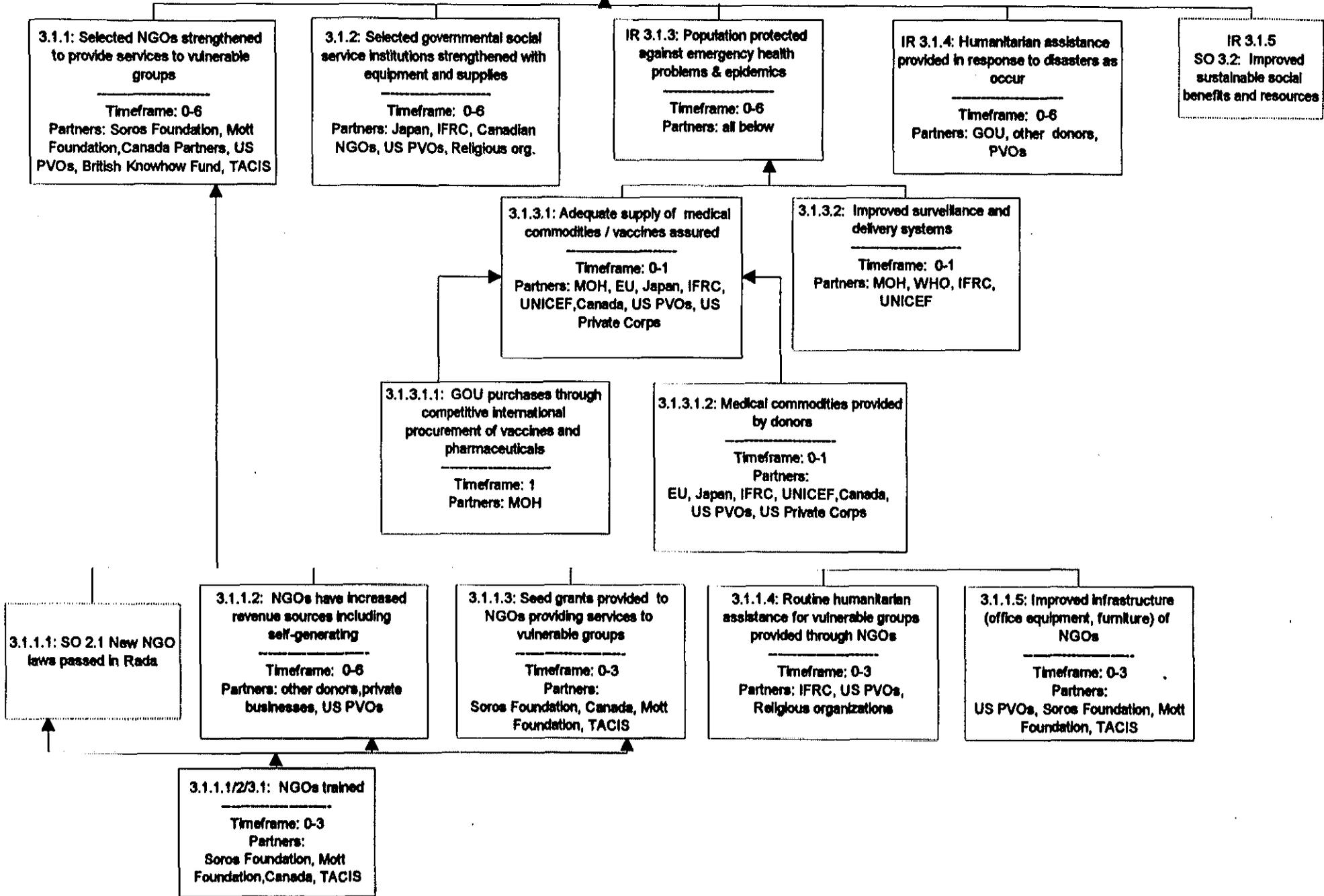
- The management skills developed and documented in the three pilot cities administrations will be rolled out to nearly 16 cities in Ukraine from 1996 into 1998. Continued emphasis will be placed on training municipal professionals through in-country and out-of-country exchanges.
- It is anticipated that a draft law on Local Self Government and State Power and Local Administrations will be submitted to parliament for debate in 1997 and passed in 1998. The Law will promulgate a transparent, consensus-based intergovernmental system ensuring revenue-expenditure balance and an independent revenue privilege.
- A system of public opinion polling will be created and conducted to measure the citizens opinion or whether their local government is more effective, responsive and accountable since elections in 1994. Municipalities will be encouraged to establish task forces, hold public hearings, and create permanent mechanisms for ensuring public participation in major planning decisions.
- Four local government repositories are to be established in 1996-97 which should increase the volume of archive information of local government operations, such as budget copies for every year since it was published.
- The immediate objective is to facilitate greater access by the majority of Ukraine's urban population to improved local services. Intensive training of local officials will be provided so that these officials are better versed in sound management practices and fiscal planning. In addition, technical assistance will be provided to help officials to contract out what were previously state functions and use other techniques to improve both the quantity and quality of municipal services. Special emphasis will be placed on the improving the quality of public transportation using lessons learned from the experience in Ternopil.
- Assistance will be provided to the GOU on preliminary draft of a new Law on Local Self Government and State Power and Local Administrations. Drafts will incorporate transparent, consensus-based intergovernmental system ensuring revenue-expenditure balance and an independent revenue privilege (IR 2.3.2.1). Additional Assistance will be provided to The Ukraine Association of Cities (UAC) to lobby local government reform in parliament (IR 2.3.3.2).
- Training will be provided to help local government officials be more aware of citizens

needs and base management decisions on needs of the citizens. In addition, training on the contracting out of formerly state providing functions will emphasize the importance of putting incentives in place to provide services in accordance with citizen preferences; (e.g. housing maintenance). Efforts will take place to create a journalist opinion poll to measure the increase in government response to media/citizen questions about government operations (IR 2.3.4.1).

- To establish repositories of public documents, initial contacts will be made with organizations such as Pylyp Orlyk Institute for Democracy, Institute for Public Administration and other potential candidate organizations to serve as repositories of budgets, public contracts, and election results to be made available to the public.

Ukraine: SO 3.1

**SO 3.1: Reduced human suffering and negative consequences of crises**  
 Timeframe: 0-6



78a

## **SO 3.1: Human suffering and negative consequences of crises are reduced**

### **I. Results Frameworks**

#### Transition Hypothesis/Underlying Rationale

Upon Ukraine's independence from the Soviet Union in 1991, the government was faced with difficult choices about the use of its very limited resources for maintaining some level of the economy and general well-being, investing in future development, and responding to immediate crises. Given the difficult choices, an emergency situation ensued. USAID joined with other donors to assist the government response to immediate needs and to build a private resource among non-governmental organizations (NGOs) to take some of the burden off of the government. Flooding in Kharkiv in 1995 resulted in a major breakdown of the sewage and water treatment systems and contaminated the water supplies. A nation-wide diphtheria epidemic and seasonal outbreaks of cholera continue to threaten the general population. The credibility of the Government of Ukraine's (GOU) reform program for democracy and a free market economy is in question if the government cannot respond to crises and emergencies suffered by its citizens. NGOs and selected government agencies are being strengthened to anticipate, prevent and manage future crises. The Mission selected to work toward this strategic objective because in Ukraine, social stabilization is necessary to maintain the public and political will to make economic and democratic reform work.

#### Critical Assumptions

The critical assumption underlying this strategic objective is that the legal framework will support NGO strengthening. There is no NGO law in Ukraine, and NGOs presently pay taxes as if they were for-profit companies. Those taxes apply to any outside assistance they receive. There are no tax benefits for genuine for-profit companies which might choose to assist an NGO. The government invests considerable authority in the Commission on Humanitarian Assistance, which has been a major bottleneck for humanitarian aid coming into Ukraine from the U.S. The GOU must pass the current NGO draft law and continue to create policies that encourage NGOs to assume social services responsibilities to fill the vacuum left by the withdrawal of the government from the provision of social services, and its current inability to respond adequately to crises and emergencies.

#### Causal Linkages

The reduction of human suffering and negative consequences of crises will be measured by two indicators, one objective and one subjective. The subjective measure is a public opinion about the quality of life since independence. The objective measure is the incidence of particular communicable diseases. The strategic objective is important for both humanitarian and political reasons. It contributes directly to ENI Strategic Assistance Area III and

indirectly to the political will to support economic and democratic transition objectives.

There are five sets of intermediate results that will affect the achievement of the strategic objective: (1) selected NGOs will be strengthened to provide services to vulnerable groups; (2) selected government social service agencies will be strengthened with equipment and supplies; (3) the population will be protected against emergency health problems and epidemics; (4) humanitarian assistance will be provided in response to disasters as they occur; and (5) there will be improved sustainable social benefits and resources.

NGOs must be strengthened to fill the void of critical social services to vulnerable groups that the government no longer can afford to or chooses not to provide, given the limited resources available to the government. Donors can improve government-run services such as hospitals, orphanages and homes for the elderly through donations of medical supplies, office equipment, furniture, clothing and other infrastructure. Donors can also assure an adequate supply of childhood vaccines and other medical commodities while assisting the government to develop procurement policies and procedures to assume that responsibility. Donors must maintain a quick response capability to shore up national resources (government and NGO) in cases of extreme disasters. Last, but not least, as social benefits and services are reestablished in a targeted and sustainable basis, the number of crises and the number of people suffering from them should abate.

**IR3.1.1 Selected NGOs strengthened to provide services to vulnerable/at risk groups will be achieved through five sets of intermediate results.** The first is that an NGO law is passed in Parliament that provides tax advantages over for-profit organizations and tax incentives for the private sector to support them (IR3.1.1.1). The second is that the NGOs must develop new sources of revenue, including self-generating sources and private contributions (IR3.1.1.2). The third is that USAID and other donors provide seed grants to NGOs providing services to vulnerable/at risk groups to strengthen that particular sector of NGOs (IR3.1.1.3). A subset of the prior three IRs is training for NGOs to help them influence legislation, diversify their funding sources, advocate their interests effectively, check government responsibilities, and manage the seed grants effectively (IR3.1.1.1/2/3.1). The fourth is that routine humanitarian assistance from the U.S. Department of Defense excess supplies program or private donors be channeled to vulnerable groups through NGOs. This will strengthen NGOs as a vehicle for effectively distributing humanitarian aid to vulnerable groups (IR3.1.1.4). The fifth is improved NGO infrastructure through office equipment, furniture and other assets. Given those five set of results aimed at strengthening NGOs, the Mission expects to see an increase in defined services to the target population of vulnerable/at risk groups.

**IR3.1.2 Selected government social service institutions strengthened with equipment and supplies.** This result will contribute productive assets to specific government institutions (hospitals, orphanages and homes for the elderly) to improve service delivery.

**IR3.1.3 Population protected against emergency health problems and epidemics.** This

intermediate result will be measured by immunization rates of adults for diphtheria and of children for selected primary childhood vaccinations. Two intermediate results will improve the immunization rates: an adequate supply of medical commodities and vaccines (IR3.1.3.1); and improved surveillance and delivery systems (IR3.1.3.2). The supply of vaccines and medical commodities will be assured by international donors (IR3.1.3.2) and purchase by the Ukrainian government. The Mission will be assisting the GOU to develop international, competitive procurement procedures which will assist them to purchase their own supplies using their own resources at substantial savings (IR3.1.3.1.1)

**IR3.1.4 Humanitarian assistance provided in response to disasters as occur.** USAID will continue to respond to national disasters as they occur and are so defined by the U.S. Ambassador. The Mission may channel increasing amounts of the response through NGOs as part of the NGO strengthening Intermediate Result.

**IR3.1.5: Improved sustainable social benefits and services.** The contribution of SO 3.2 will be to lower the number of people in the target population of vulnerable/at risk individuals. In addition, NGOs play an important role in the private sector network of organizations providing social services. The strengthening of NGOs to provide social services under SO 3.1 has an immediate benefit of reducing the suffering of the most vulnerable members of society during the crises. However, these NGO efforts will also contribute to the network of private social services which will be a long-term and essential component of available social services and benefits in Ukraine.

## **II. Overall Progress to Date**

Upon Ukraine's independence from the Soviet Union in 1991, the government was no longer able to provide adequate social services for the population and an emergency situation ensued. The international community, including USAID, responded by providing critical humanitarian assistance to temporarily sustain the population. Alarming, there has been a resurgence of vaccine preventable disease such as diphtheria. USAID is the largest donor of adult diphtheria toxoid (Td vaccine), providing a total of 32 million Td doses and related supplies to help the government control the epidemic. USAID is also providing a year's worth of insulin for children with diabetes who, after Ukraine's independence, had virtually no access to insulin. USAID responded to the devastating floods in Kharkiv in July 1995 which resulted in a major breakdown in the sewage and water treatment systems. In order to alleviate the hardships imposed on the most vulnerable populations during the country's difficult transition, USAID has continued to provide humanitarian assistance through government social services and local non-governmental organization (NGOs) to meet their critical needs and improve service delivery. In order to help make social services work for the people during this difficult period, USAID has supported the institutional development of local NGOs whose efforts are critical as part of the private sector network. The longer-term objective is to develop these NGOs into effective and efficient entities able to continue to provide services without donor assistance.

Results achieved to date include:

Selected NGOs strengthened to provide services to vulnerable groups:

- NGOs started to emerge almost immediately after independence in 1991. Since then, the Ukrainian NGO movement has made exponential gains, both in strength and numbers. Almost 5,000 groups are currently registered with the Ministry of Justice, and more than 2,000 social service organizations are actively delivering vital public services. Since 1992, USAID has provided support to local NGOs working to provide social services. NGOs play a critical role in the private sector network of organizations providing social services to vulnerable groups.

Selected governmental social service institutions strengthened with equipment and supplies:

- Government social service institutions such as hospitals, orphanages and home for the elderly are in a state of disrepair. USAID has provided humanitarian aid such as medical supplies, furniture and clothing to support these institutions through this difficult transition. The need in this area is enormous as the government grapples with dwindling resources and escalating demands.

Population protected against emergency health problems and epidemics:

- The health situation in Ukraine presents a complex pattern. Unlike almost any other area of the world, impressive gains in health through most of the 1960s and 1970s have been followed by stagnation and even decline in the 1980s and 1990s. Alarming, there has been a resurgence of vaccine-preventable diseases, including diphtheria, tuberculosis and polio. These health problems not only cause unnecessary suffering and death among the population, they can also have a potentially destabilizing effect on Ukraine, which has in the past successfully controlled such diseases. Diphtheria control has been the primary focus of USAID assistance in infectious diseases in Ukraine. Since 1990, an estimated 15,000 people have contracted diphtheria and approximately 525 people have died. USAID has been the major supplier of adult diphtheria toxoid (Td vaccine) and related supplies to help the government combat this epidemic. The European Union, through the International Federation of the Red Cross and Finnish Red Cross, has also provided significant vaccine for this effort. The international community remains concerned by the continued incidence of diphtheria and strongly supports the government's efforts to complete the implementation of the current diphtheria control program. The resurgence of vaccine preventable diseases underscores the need for Ukraine to develop a sustainable immunization system in order to prevent future epidemics. Since Ukraine's independence, the government has not been able to provide needed supplies of pharmaceuticals for the sick. To assist the roughly 4,000 Ukrainian children with diabetes, USAID is currently providing a one year supply of urgently needed insulin and related supplies.

Humanitarian assistance provided in response to disasters as occur:

- USAID provides humanitarian aid in response to emergency situations (floods, environmental disasters, etc). In response to the emergency floods in Kharkiv in summer 1995, USAID and other donors provided humanitarian assistance. In order to help the government prevent future emergencies, government officials were trained in the U.S. and emergency stockpiles have been established in Ukraine.

### **III. ENI's Significant Contributions**

Selected NGOs strengthened to provide services to vulnerable groups:

- The USAID-supported NGO Service Center serves as an NGO database and information sharing and exchange resource for the NGO community throughout WESTNIS.
- As of April 1996, seed grants totaling roughly \$300,000 have been awarded to 12 local NGOs working in social services in Ukraine.
- Training has been provided to over 1,200 budding leaders from 616 NGOs in basic project design and management. Many of the NGOs trained have already received financial support from international donors and organizations.
- U.S. PVO - local NGO partnerships were established to help develop the local NGOs to deliver needed social services to the disabled, elderly and children.
- Since the beginning of 1994, the Eurasia Foundation has awarded roughly \$200,000 through 21 grants in support of NGO development efforts.

Selected governmental social service institutions have received needed equipment and supplies:

- In commemoration of the 10th anniversary of the Chernobyl accident in April 1996, the USG and private U.S. organizations provided over \$11 million of humanitarian aid. This aid was distributed to 36 medical institutions serving Chernobyl victims in the eight oblasts most affected by the nuclear disaster.
- Through March 1996, USAID has provided direct humanitarian aid (winter clothing, boots, blankets, other supplies) to approximately 400,000 vulnerable people. This aid was channeled through approximately 130 local social service NGOs. Over 120 NGOs received infrastructure support valued at over \$2 million. USAID provided over \$4 million worth of supplies to 500 government social service organizations (i.e., hospitals, orphanages and homes for the elderly). Humanitarian aid was

provided by the U.S. Department of Defense excess supply program.

- A 1,000 bed U.S. Army hospital was provided for the city of Donetsk, worth approximately \$17 million.
- To improve the survival of Ukrainian children and adolescents stricken with radiation-related illnesses, USAID provided \$350,000 to the Children of Chernobyl Relief Fund to provide critical pharmaceuticals and training to strengthen the capacity of local hospitals to combat radiation related illnesses.

Population protected against emergency health problems and epidemics:

- Since 1994, USAID has provided 32 million doses of adult diphtheria toxoid (TD vaccine) to help the government combat the diphtheria epidemic. Mass immunization campaigns are being scheduled for June in three eastern oblasts -- Donetsk, Lugank and Dnipropetrovsk. These campaign will be fully supported by USAID procured vaccine.
- To aid the approximate 4,000 children in Ukraine with diabetes, USAID is currently supplying one-year's worth of insulin and related diabetic monitoring supplies valuing roughly \$2 million. By the end of May 1996, the final shipments of insulin will have been delivered throughout Ukraine.

Humanitarian assistance provided in response to disasters as occur:

- In response to the devastating floods in Kharkiv in summer 1995, chloride disinfectant was provided to render household water potable, and U.S. Department of Defense excess supplies were provided as emergency relief valued at roughly \$340,000.
- To maximize emergency preparedness, 60 government officials and NGO staff members working in emergency response were trained in the U.S.
- Emergency supply stockpiles have been established in Ukraine. SO 3.1 Reduced human suffering and crisis impact.

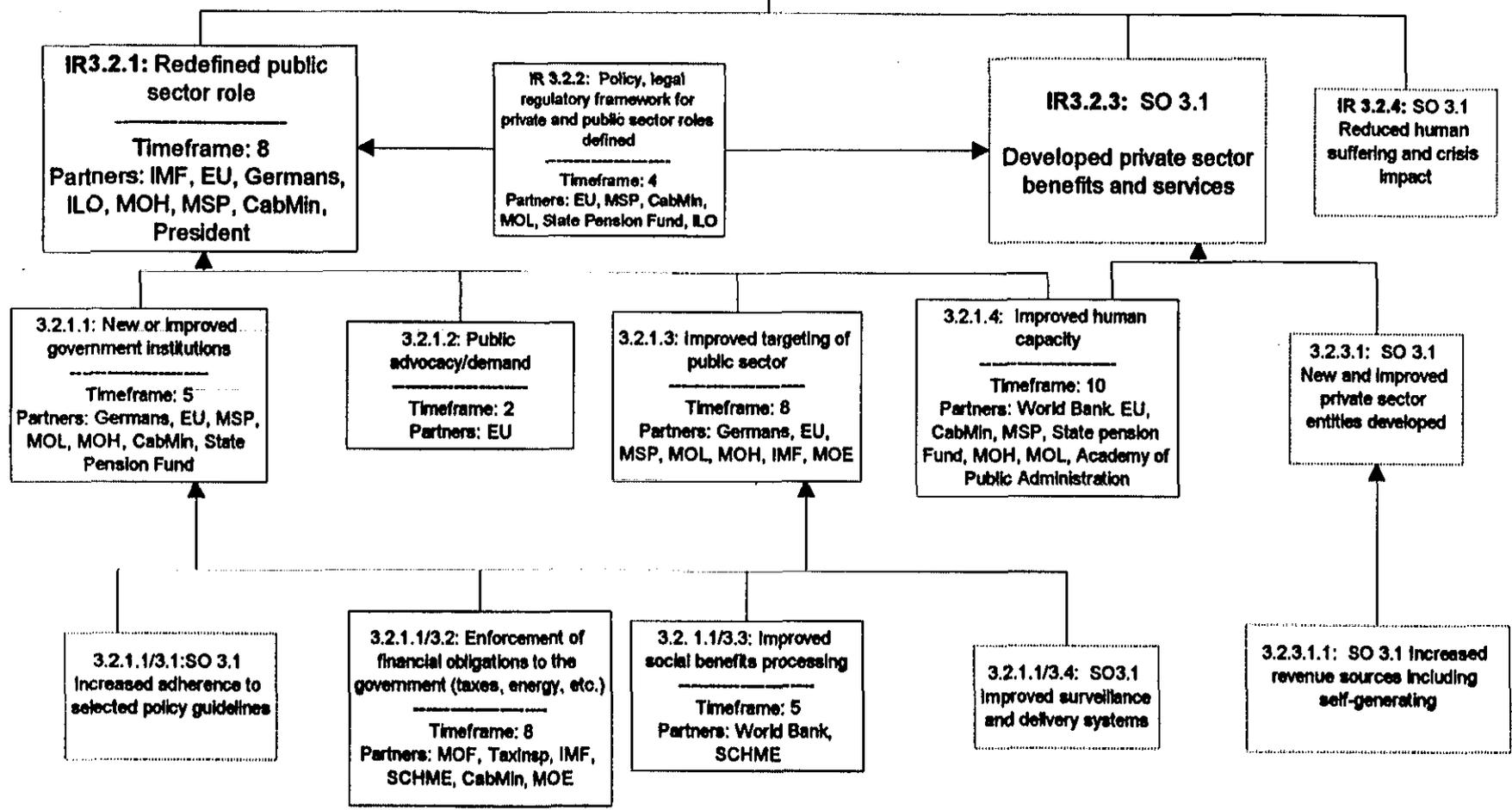
#### **IV. Expected Progress in 1997 and 1998**

- **IR 3.1.1 Selected NGOs strengthened to provide services to vulnerable groups:** USAID will continue to support the development of sustainable NGOs providing needed social services to the most vulnerable by providing needed training, technical assistance, small grants and institutional support to help develop this budding sector.
- **IR 3.1.2 Selected governmental social service institutions strengthened with**

**equipment and supplies:** USAID will continue to provide needed supplies such as medical supplies, furniture and clothing to support these institutions through this difficult transition. This humanitarian aid is provided through the U.S. DOD excess supply program.

- **IR 3.1.3 Population protected against emergency health problems and epidemics:** While USAID will continue to respond to emergency health problems as needed, over the next two years USAID plans to move away from the humanitarian approach of providing vaccines and other supplies and toward greater focus on building capacity to address critical health problems. Assistance will include improving their health surveillance systems and providing technical assistance in how to carry-out competitive international procurement of vaccines and pharmaceuticals.
- **IR 3.1.4 Humanitarian assistance provided in response to disasters as occur:** USAID will continue to provide humanitarian assistance provided in response to disasters such as floods, as declared by the U.S. Ambassador.

**SO3.2: Improved sustainability of social benefits and services**



85a

## **SO 3.2: Improved sustainability of social benefits and services**

### **I. Results Frameworks**

#### Transition Hypothesis/Underlying Rationale

Political support for economic reform in Ukraine will evaporate if affordable methods are not developed to shelter the poor from rapid price increases, falling incomes, and the deterioration of basic public services. The Government of Ukraine (GOU) must find ways to lower the national deficit by reducing subsidies to the general population while maintaining them for the poor to avoid increased political costs. The transition hypothesis is that the government reduces its costs while creating opportunities for private initiative and fee for service schemes to assume some of the burden. The government will reduce costs in two ways: by reducing the scope of social services and benefits to focus on the needy; and by improving the efficiency with which it delivers those reduced benefits and services. At the same time, the government will increase revenues by establishing fees for previously subsidized benefits such as housing maintenance and utilities and by setting up the legal and regulatory framework for health and other social insurance programs and private pension funds. On the other side of the equation, the right policy, legal and regulatory framework for the private sector will encourage the development of new private entities to provide social benefits and services.

#### Critical Assumptions

The major critical assumption is that the GOU and Parliament are able to reach agreement on the targeting and amounts of subsidies. Recent evidence shows them working at cross purposes. Parliament enacted an official increase in the poverty level (affecting increases in GOU benefits and wage scales) which the GOU refused to implement, saying it was unsustainable given the existing budget, and hyper inflationary.

#### Causal Linkages

The Mission will measure achievement of SO 3.2, Improved sustainability of social benefits and services, by seeing decreased spending by the GOU on eight social services as a percent of GDP. The strategy is to decrease government cost and increase revenue from sources other than the government.

Two intermediate results and progress in SO 3.1, Reduced human suffering and crisis impact, are sufficient to achieve the strategic objective. They are IR3.3.1 Redefine public sector role and IR3.2.2 Policy, legal, regulatory framework for private and public sector roles defined. A redefinition of the public sector role entails new or improved government institutions to enhance the quality of service and efficiency of delivery of public benefits and services (IR3.2.1.1), the promotion of public advocacy and a demand for a redefined public

sector role (IR3.2.1.2), targeting the remaining subsidies to the most needy (IR3.2.1.3), and improving human capacity in medical as well as administrative areas (IR3.2.1.4). Developing private sector benefits and services involves increased human capacity (IR3.2.1.4) and the creation of new private sector providers of quality service (IR3.2.3.1:SO3.1).

Given that overview, a return to the Results Framework for IR3.2.1 Redefine public sector involvement, reveals that there are four intermediate results that generate two of the four results that relate directly to it. Looking at the set of four, Increased adherence to selected policy guidelines (IR3.2.1.1/3.1:SO3.1), Enforcement of financial obligations to the government (IR3.2.1.1/3.2), Improved social benefits processing (IR3.2.1.1/3.3), and, Improved surveillance and delivery systems (IR3.2.1.1/3.4:SO3.1) are necessary and sufficient to generate both New or improved government institutions (IR3.2.1.1) and Improved targeting of public sector. What that means is that better surveillance information combined with more efficient computer processing of benefits, increased revenue collections on the government's accounts due, and improved performance through adherence to selected policies on service will improve the government targeting of services and improve the institutions through which they provide services. Those two results plus public support for a targeted approach to government service will produce a redefined public sector role in practice.

## **II. Overall Progress to Date**

President Kuchma has set reform of the social protection system in Ukraine as a major goal. General price subsidies to the population are to be replaced in large part by targeted, means-tested subsidies for the poor. A phase-in of price increases for government services and utilities is being completed. The government has also set a goal of reforming the system of social insurance - in September 1995 it submitted a fundamental law on social insurance to the parliament - and has decided to establish a regulatory system for private pension funds. While a planned law on health insurance is stalled, health insurance demonstration projects are underway, and the government is moving to make its health care system more efficient.

Political support for economic reform in Ukraine will evaporate if affordable methods are not developed to shelter the poor from rapid price increases, falling incomes, and the deterioration of basic public services. USAID support for social sector restructuring is designed to protect the most vulnerable members of society during the economic transition, reduce government budget expenditures on the social sector, and facilitate the price increases necessary to improve social service quality. In particular, USAID assistance supports the government in moving from universal price subsidies to those based on income, and to lay the foundation for a sustainable system of social insurance. It is designed to help the government meet cost recovery targets established by the IMF and carried out in collaboration with the EU and other international groups.

Another major thread of USAID assistance is to support local and oblast governments in their efforts to improve the quality of social services available from the government, despite a severe budget crisis. Our efforts in this area involve the health care and housing sectors. We are working to restructure the health care system to serve more directly the needs of the population, to increase the resources available for health care institutions, to improve clinical care and management, and to introduce modern family planning methods, and have achieved significant successes in each of these areas.

The final area of USAID's assistance under this strategic objective is the development of private sector social services and benefits. USAID has provided assistance to start-up, develop and train indigenous non-governmental organizations (NGOs) providing social services to the most vulnerable members of Ukrainian society, such as the elderly, disabled, large families and substance abusers. NGOs play an important role in the private sector network of organizations providing social services which the government no longer can afford to provide or chooses not to provide. This program is being tracked formally under SO 3.1 because of NGOs' critical role in reducing human suffering and the negative consequences of the immediate transition. However, NGOs play a clear and important role in the private sector social services in the immediate and longer-term. For this reason, it is important that the NGO social service program is presented under both SO 3.1 and SO 3.2 and formally tracked under SO 3.1.

Results to date include:

Reform of social sector financing:

- In May 1995, with USAID assistance, an income-based housing subsidy program was implemented and 716 housing subsidy offices opened around Ukraine. By April 1996, more than 3.2 million Ukrainian families had received subsidies for part of the cost of their housing and utility bills. In January 1996, the GOU raised prices of housing and related services to cover 60% of the cost of providing those services, and prices of natural gas to consumers to cover 80% of its cost. Price increases for housing and communal services, enabled by the housing subsidy program, have saved the Ukrainian budget an estimated net \$600 million in 1995.
- On October 1, 1995, Lviv Oblast issued a decree restructuring financing for its health care system and providing for use of paid services.
- The cost of health care has been reduced at partnership hospitals through 45-65% reductions in the number of days patients stay in the hospital.
- Hands-on training in laparoscopic surgery has provided physicians in Lviv and Odessa with the opportunity to employ new methods and disseminate them to their colleagues. The improved surgical techniques had a significant impact on hospital expenditures and helped reduce the average length of stay for post-surgical patients from 18-20

days to 4-5 days.

- Length of post-partum hospital stay was decreased by 42% for normal births and cesarian sections at the reproductive health model site in Donetsk, just 9 months after commencing initial project activity, representing a substantial savings for the hospital.

Improved technical capacity:

- The Ministry of Health issued a decree in January 1996 that permits maternity hospitals to allow rooming-in, (mothers and infants are permitted to stay together after birth), and eases restrictive breastfeeding regulations to allow breastfeeding to be initiated immediately after birth and on-demand rather than on a rigid time schedule.
- The Donetsk Regional Center for Maternal and Child Care, a reproductive health model site, and Donetsk City Hospital #9 have allocated 100% of their post-partum facilities for normal births to rooming-in. The change in rooming-in procedures at City Hospital #9 indicates that significant project roll-out has begun.

Key issues facing the GOU include:

(1) The GOU needs to make a firm and consistent commitment both to decrease the level of budget expenditures as a percent of GDP spent on the social and health sectors, and to decrease the payroll tax, which is currently used to pay for many social programs. Many current proposals for social and health care reform call for a spending and/or payroll tax increase.

(2) Parliament has enacted an increase in the official poverty level - and implicitly the level of pensions, family benefits and wages - to a level unsustainable by the budget. The GOU is refusing to implement this increase, saying it would cause hyperinflation. Intense political pressure on this issue will influence GOU actions on social sector reform.

(3) The GOU currently plans to eliminate many expensive payments and perquisites currently received by specific classes of the population - such as Chernobyl victims and war veterans -- regardless of need. This is a key step in reducing the budgetary burden of the social sector, but will be extremely difficult to do politically.

(4) The GOU, which has been inconsistent in its support for health insurance initiatives and health care financing reforms, needs to make a determination on whether, how and how soon to pursue these reforms. A single direction needs to be chosen and followed.

(5) The GOU needs to make a firm commitment to support reform of the state pension fund to make it sustainable, including raising the eligibility age for pensions.

(6) The legal basis for private provision of many social services, particularly privatization of health care facilities, is currently unclear, and private providers need to clear a number of hurdles in order to be licensed. Strategic Objective 3.2  
Improved sustainability of social benefits and services

### **III. ENI's Significant Contributions**

USAID is providing technical assistance to help refine and build support for the new income-based subsidy program on housing and utilities, and to help develop a broader program of means-tested subsidies for the needy. This program has enabled the GOU to raise prices for housing and utilities for the entire population to meet IMF requirements. USAID has provided much of the policy development advice necessary for startup and improvement of the program, and has supported the GOU in defending its social protection program before critics. USAID has also supported a program of public education to inform Ukrainian citizens of the availability of the subsidy program, how to apply for the program, and about the rationale for targeting subsidies. USAID is also providing computer hardware and software to support the efficient operation of the subsidy program.

USAID's health financing reform project is working to reduce the cost of health care and increase its efficiency by supporting reorientation of health care delivery away from long hospital stays and toward clinic visits, and by introducing market incentives. Pilot projects have demonstrated successful methods for introducing user fees for health care services, which are now being replicated in a number of medical institutions. Model health insurance programs are being supported. The project is also supporting initiatives to improve patients' access to care and the quality of that care through new primary care clinics, the use of quality indicators, and incentive payments to physicians who provide high quality care.

Reducing health care costs is also one goal of the reproductive health project, which aims to reduce the rate of abortion through physician training in modern family planning methods. In 1991, the Ministry of Health estimated that the cost of treating abortion complications was four times that of supplying the population with contraceptives. Better reproductive health care and greater access to contraceptive alternatives to abortion will reduce the human and financial cost associated with abortion complications. The reproductive health project develops model family planning and maternity care services at three medical centers, creates sustainable physician training in up-to-date reproductive health technologies and maternity practices, develops public awareness materials, and increases availability of contraceptives to women.

Partnerships between U.S. hospitals and hospitals in Kiev, Lviv, Donetsk and Odessa are focusing on closing the health care knowledge gap so that preventive and curative techniques that have been successful elsewhere can be adapted and disseminated, thus improving the efficiency and productivity of existing health providers.

Training has been provided in the areas of pensions, unemployment insurance and health insurance, and funding has been provided to support model health insurance projects. The program is also providing limited advice and consultation on the development of a regulatory framework for private pension funds to protect investors.

Training has been provided in the areas of project design and NGO management to over 1,200 budding NGO leaders from over 600 NGOs. Many of the NGOs trained have already received financial support from international donors and organizations. Partnerships have been developed between U.S. PVOs and local NGOs delivering needed services to the elderly, disabled and orphans. As of April 1996, seed grants totaling \$300,000 were awarded to 12 NGOs throughout Ukraine working to provide social services (e.g., disabled, large families, HIV/AIDS, elderly, women, Chernobyl victims, orphans).

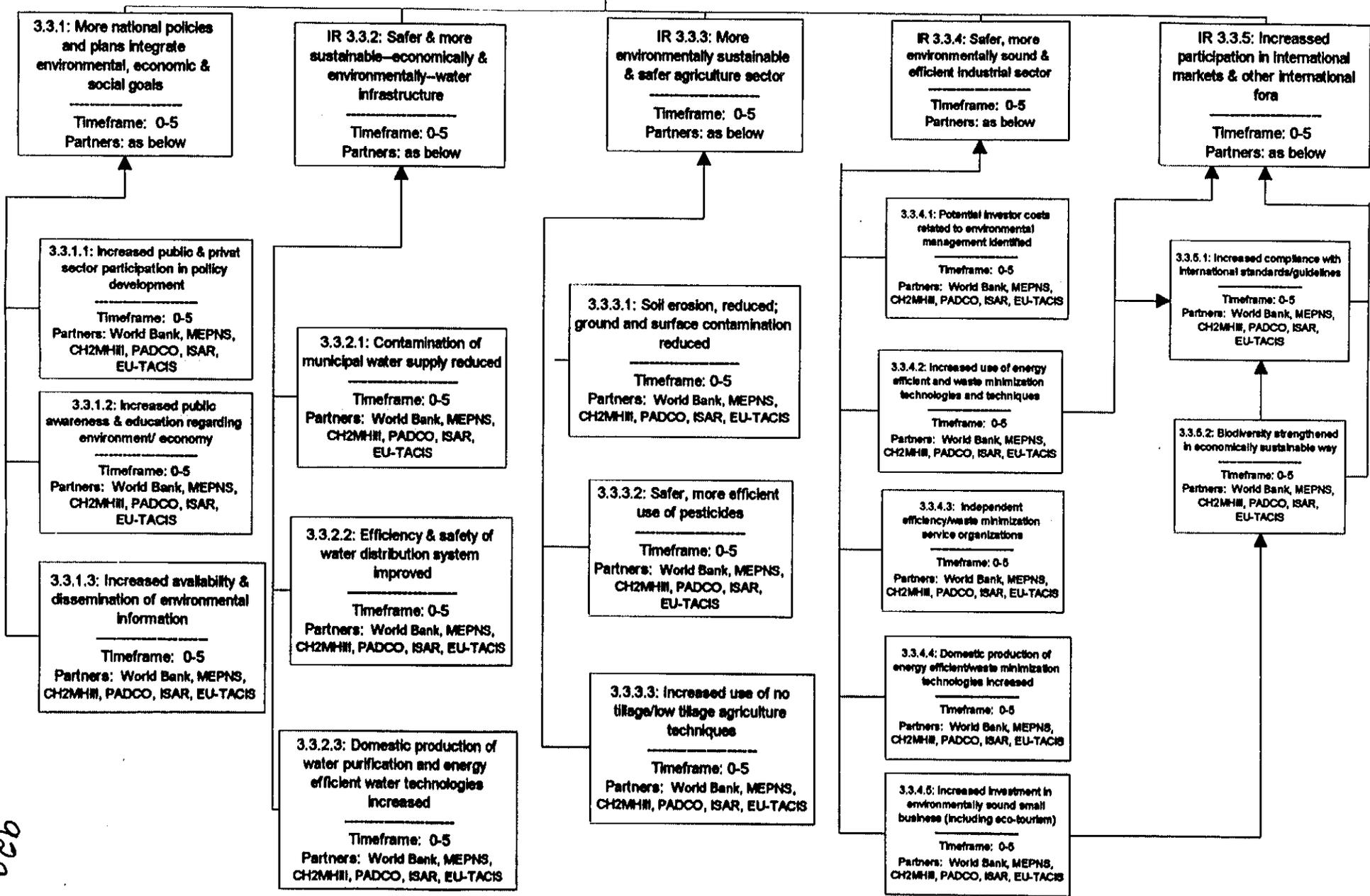
#### **IV. Expected Progress in 1997 and 1998**

- GOU budget spending on social sector and health programs will decrease to 21 percent of GDP in 1997 and 20 percent of GDP in 1998, as compared to 24.5 percent for 1995.
- 70 percent of the public will support the concept of targeting subsidies to the poor as opposed to subsidizing all citizens, as compared to 45 percent in October 1995.
- Charges to households will be adequate to recover 100 percent of the cost of providing housing and utilities by 1997.
- Only 20 percent of families by the end of 1997 and 15 percent of families by the end of 1998 will be two or more months behind in their payments for housing and utilities, as compared to 30 percent at the end of 1995.
- A nation-wide, unified computer network for processing social benefits will be operating by the end of 1998.
- A new regulatory mechanism for private pension funds will be established and functioning by the end of 1997, and at least 20 private pension funds will be registered by the end of 1998.
- The abortion rate at pilot reproductive health training sites will have been reduced 15 percent in 1998 as compared to 1994.
- 90% of adults (16-59 years) will be immunized with one-shot of adult diphtheria toxoid (Td vaccine) as recommended by WHO diphtheria control strategy (tracked under SO 3.1).

- **Action-oriented surveillance system for diphtheria and polio control in selected oblasts will be operational (tracked under SO 3.1).**
- **There will be growth in the number of indigenous NGOs effectively providing needed social services to vulnerable groups (tracked under SO 3.1).**
- **An increased percentage of vulnerable groups will receive social services from NGOs (tracked under SO 3.1).**
- **75% of NGOs that have received small grants and training from USAID demonstrate longer-term viability to provide social services (tracked under SO.3.1).**

Ukraine: SO 3.3

**SO 3.3**  
**Increased capacity to deal with pollution as a threat to public health**  
 Timeframe: 0-5



92a

### **SO 3.3: Increased capacity to deal with pollution as a threat to public health**

#### **I. Results Frameworks**

##### Transition Hypothesis/Underlying Results

The environmental sector is an important contributor to ENI Strategic Assistance 3 because it will enable and facilitate safe and environmentally sustainable economic development. In Ukraine a legacy of the Former Soviet Union was complete disregard for the environment, a lack of social awareness of the costs of natural resources, and an inability to manage natural resources as a fundamental for economic development. Chernobyl is a prime example of resource mismanagement that has resulted in catastrophic impacts on human health and the environment and significant economic costs.

In attempting to address these problems, Ukraine has developed unrealistic environmental regulations and standards on its books, and it lacks the capabilities and resources for revising these regulations and standards to more appropriately reflect the realities of Ukraine's transition to a free market economy. Related to this problem Ukraine has not had the background and/or training to use market-based incentives to deal with pollution as a threat to public health and at the same time achieve better environmental and economic outcomes.

Ukraine needs a cost-effective approach to reduce the environmental risks to public health that simultaneously demonstrates the social (health and safety) and economic benefits of sound environmental management. To institutionalize this approach, a practical forum for cross-disciplinary interaction among Ukraine's ministers with a view to integrating environmental, economic, and social objectives in policy making is critical at this time of Ukraine's transition.

##### Critical Assumptions

Ukraine's Ministry for Environmental Protection and Nuclear Safety will favor a cost-effective approach to environmental management that promotes and harnesses market forces to protect human health and the environment.

##### Causal Linkages

Achievement of SO 3.3 will be measured by a reduction in contamination of air, water, and land; by improved energy conservation and efficiency; by reduced operating costs for utilities and enterprises, and by increased investment in environmentally sound business. As the economic and social (health and safety) benefits of sound environmental management are realized in very practical terms, more national policies and plans will integrate

environmental, economic and social goals and Ukraine's capacity to deal with pollution as a threat to public health will be significantly increased.

There are five Interim Results required to achieve SO 3.3: 1. More national policies and plans integrate environmental, economic and social goals (IR 3.3.1); 2. Safer and more sustainable -- economically and environmentally -- water infrastructure (IR 3.3.2); 3. More environmentally sustainable and safer agriculture sector (IR 3.3.3); Safer, more environmentally sound and efficient industrial sector (IR 3.3.4); Increased participation in international markets and other international fora (IR 3.3.5).

**IR 3.3.1: More national policies and plans integrate environmental, economic and social goals.** This will be measured by the number of recommendations for integrated national policies. There are three intermediate results that will achieve this end.

1. Increased public and private sector participation in policy development will enable diverse goals to be represented in national policies.
2. A better educated and more aware public on the relationship between economic development and sound environmental management will improve the quality of public participation in national policy making.
3. Increased availability and dissemination of environmental information will improve the opportunities to improve public education and awareness of the relationship between economic development and sound environmental management.

**IR 3.3.2: Safer and more sustainable -- economically and environmentally -- water infrastructure.** This will be measured by increased access to clean water. There are three intermediate results that will achieve this end.

1. Reduced contamination of municipal water supply will improve the safety of the water supply. Contamination can be addressed at three points: water source such as rivers and reservoirs, water distribution systems, and at the point of consumption such as with water purification units.
2. Improved efficiency and safety of the water distribution system will both reduce opportunities for contamination of the water supply, reduce energy consumption, reduce operating costs, and improve opportunities for sustainable operation of water utilities.
3. Increased domestic production of water purification and energy efficient technologies will facilitate improvements to the efficiency and safety of the water distribution system in Ukraine, help institutionalize reform, and at the same time advance Ukraine's privatization process.

**IR 3.3.3: More environmentally sustainable and safer agriculture sector.** This will be measured by improved farm productivity and efficiency. There are three intermediate results that will achieve this end.

1. Reduced soil erosion and ground and surface water contamination will reduce threats to human health and simultaneously improve the sustainability of Ukraine's agriculture sector by protecting and/or improving the quality of critical assets -- soil and water.
2. Safer and more efficient use of pesticides will reduce the number of pesticide-related accidents in Ukraine, and reduce the potential for soil exhaustion through over-use of pesticides.
3. Increased use of no tillage/low tillage agriculture techniques will reduce energy consumption and at the same time reduce soil erosion.

**IR 3.3.4: Safer, more environmentally sound and efficient industrial sector.** This will be measured by increased investment in enterprises that produce products using safer, more environmentally sound production processes. There are five intermediate results that will achieve this end.

1. Identifying potential investor costs related to environmental management will reduce investor uncertainty and promote investment in safer, more environmentally sound business.
2. Increased use of energy efficient and waste minimization technologies and techniques will promote private sector investment, improve energy efficiency, and improve the efficiency of production processes by reducing the amount of waste generated and by reducing operating costs over the medium and longer term.
3. Independent efficiency/waste minimization service organizations. These independent organizations will promote increased use of energy efficient and waste minimization technologies and techniques and at the same time be created and sustained by demand for their services in response to the practical benefits to be achieved through the use of energy efficient and waste minimization technologies and techniques.
4. Increased domestic production of energy efficient/waste minimization technologies will respond to increased demand generated by intermediate results 1-3 above.
5. Increased investment in environmentally sound small business (including ecotourism) will demonstrate the positive synergy between sound environmental management and economic development.

**IR 3.3.5: Increased participation in international markets and other international fora.** This will be measured by increased exports of products that are produced by safer, more environmentally sound production processes, and by adoption of international protocols and agreements. There are two intermediate results that will achieve this end.

1. Increased compliance with international standards and guidelines will enable increased participation in international markets and create a positive feedback loop between safe, environmentally sound production processes and export revenues.
2. Strengthening biodiversity in an economically sustainable way will demonstrate the practical benefits of biodiversity as a potential source of revenue, while at the same time protecting Ukraine's unique environmental assets.

## **II. Overall Progress to Date**

A legacy of the former Soviet Union is the command and control method of government decision-making, coupled with information control rather than information dissemination. Chernobyl is a prime example of information control negatively affecting human health, as well as of resource mismanagement resulting in catastrophic impacts on human health and the environment. Access to potable water is another problem that is evident throughout Ukraine and negatively affects human health, as does pesticide mismanagement.

Currently, Ukraine's Ministry for Environmental Protection and Nuclear Safety has unrealistic environmental regulations and standards on its books, and it lacks the capabilities and resources for revising these regulations and standards to more appropriately reflect the realities of the transition to a free market economy. The Ministry also does not have the background and capability to use market-based incentives to achieve better environmental outcomes -- particularly with regard to solid and hazardous waste minimization and management, and water management -- in a cost-effective way. Moreover, there is no practical forum for cross-disciplinary interaction among Ukraine's ministers with a view to integrating environmental, economic, and social objectives in policy-making, yet the transition period is a critical time for developing integrated policies.

## **III. ENI's Significant Contributions**

To address these significant problems, USAID is strengthening institutions within government, the private sector, and the NGO community to create an institutional framework that will support Ukraine's transition to a market economy and the integration of environmental, economic, and social objectives in policy-making.

One USAID program is targeting the sources of Ukraine's water supply and water distribution system (vodokanals), the significant points of contamination. Activities are

underway, building models for intervention at each of these critical points: reservoir/river water modeling and monitoring, vodokanal re-engineering, and modular water purification technology. At the same time, USAID is working with other donors and vodokanal management and city administrators to reengineer the vodokanal into a financially viable and self-sustaining organization. USAID has also launched a pest and pesticide management project which includes training for Ukrainian agricultural chemical distributors, farmers and extension workers in integrated pest management and safe use of pesticides. USAID has also begun a program of education, training, technical advice, and practical demonstration of safe, cost-effective approaches to waste minimization and management and energy efficiency.

More national policies and plans integrate environmental, economic and social goals:

- USAID established a Ukraine/American Executive Council to Promote Sustainable Development. This Council, related work group, and a field demonstration program is focused on integrating economic and environmental decision-making. The Council represents a unique forum, modeled on President Clinton's Council on Sustainable Development, that brings together for the first time representatives from different groups with often opposing agendas. The private sector, non-governmental organizations, the Ministry of Environmental Protection and Nuclear Safety, the Ministry of Industry, the Anti-Monopoly Committee, the Cabinet of Ministers, the State Committee for Housing and Communal Economy, the State Committee for Energy Conservation, the World Bank, and EBRD are members. This program is a critical step towards the development of integrated policies.
- As a result of USAID's support for ISAR in Ukraine, the number of environmental non-government organizations registered in Ukraine, Moldova and Belarus increased from 150 to 562 -- an increase of 275%. With USAID funding, ISAR has awarded grants to over 108 organizations since 1994.
- In addition, with USAID funding, the U.S. Environmental Protection Agency has procured a mobile radiation laboratory for the Ministry of Environmental Protection and Nuclear Safety. This laboratory will form part of the Ministry's initiative to establish a 24-hour monitoring unit to monitor and assess radioactive and non-radioactive contamination outside the Chornobyl zone. Currently the only information available is from the nuclear power plants themselves.

Safer and more sustainable -- economically and environmentally -- water infrastructure:

- In response to USAID-sponsored collaborative workshop for the Lviv Vodokanal and City of Lviv decision-makers, the Vodokanal Director doubled salaries of all Vodokanal employees and transferred 30 into the billing department to increase billings and collections. The Workshop focused on steps necessary to reengineer the Vodokanal into a financially viable utility through improved infrastructure, consumption-based billing, tariffs based on cost recovery, energy efficiency,

increasing payables and decreasing outstanding collections, better corporate management, and payment for power, particularly electricity. In addition, USAID is the only donor assisting the Lviv Vodokanal to assess the 420 kilometers of pipes that distribute water to the city, assessing the need for energy efficient motors to reduce energy costs, and providing technical expertise to pilot interventions that will demonstrate the benefits of reform in a very tangible way. These reforms will lead to increased access to potable water in a city where residents receive only 6 hours of water per day. In addition, nine Ukrainian professionals and officials from water utilities have been trained in more efficient operation of safer supply services while operating on a cost-recovery basis.

- Under USAID's Kaniv Water Modelling project, EPA completed water sampling and training for Ministry of Environmental Protection and Nuclear Safety professionals.
- On January 20, 1996, USAID cut the ribbon installing a water purification unit at Okhmadet Hospital. This ceremony marked the beginning of private production of the water units in Ukraine, using U.S. technology. The State Committee for Housing and Economy has already ordered the units which it hopes can be placed at many locations throughout Ukraine.

**More environmentally sustainable and safer agriculture sector:**

- USAID's pest and pesticide management program has selected Odessa, Lviv, and Dnipropetrovsk as sites for training centers in pest and pesticide management. In addition, EPA, with USAID funding, has begun work with Ukraine agencies involved in pesticide registration, testing and management.

**Safer, more environmentally sound and efficient industrial sector:**

- In response to USAID activities focused on waste minimization and management, our local counterpart, the Donetsk oblast Ministry for Environmental Protection and Nuclear Safety has established an internal office dedicated solely to solid waste. Since opening the USAID-funded Technical Information Center, three training workshops in waste management have been completed for about 75 Ukrainians. The Center has more than 8,000 technical publications dealing with industrial waste minimization and management available for use by oblast enterprises, academics, and ministry officials, and provides consulting services to them as well.

**Increased participation in international markets and other international fora:**

- USAID will assist GOU counterparts to review and assess the application of the various international environmental agreements and protocols, in particular the application of ISO 14000. In addition, USAID will work with the World Bank in developing a biodiversity strategy that will assist Ukraine qualify for Global

Environmental Facility (GEF) funding. Strategic objective 3.3 Increased capacity to deal with pollution as a threat to public health.

#### **IV. Expected Progress in 1997 and 1998**

To increase the likelihood that this strategic objective will be achieved, USAID, in partnership with other donors, including the World Bank and EBRD, must demonstrate in very practical pilot demonstrations the benefits of reform. Our counterparts are constantly reminding us that no more feasibility studies are required. What is required is assistance with implementation. Hence, USAID's environment program in Ukraine is focused on demonstrating in the most practical and tangible way possible the benefits of reform and institutionalizing reform. Our next critical step is to complete the development of our pilot models and demonstrations and to begin roll them out throughout Ukraine. For example, in Lviv we are developing a model that combines housing privatization, improved water supply, improved energy efficiency, and the financial sustainability of the Vodokanal. This also will enable the Vodokanal to qualify for a World Bank loan to allow a more comprehensive upgrade and repair of the water distribution system. This call for practical models applies as strongly in the industrial sector where we will provide practical demonstrations of more efficient waste minimization practices that reduce energy consumption and thus the costs of enterprise operation.

Simultaneously, one of the most critical activities is feeding lessons learned from each of USAID's and other donor's practical demonstrations back to the USAID-funded Ukraine/American Executive Council to Promote Sustainable Development. The role of this Council is to address those issues, such as water tariffs currently based on national norms rather than cost recovery, that cannot be addressed at the local level. The Council, with support of work groups, will draft proposals for legislative changes or new legislation that integrate environmental, economic, and social objectives. This Council provides a unique forum in Ukraine for our counterparts to interact on these difficult issues that affect the health, safety, and economic development of their country.

## **Special Objective Eurasia Foundation**

### **Rationale**

Assistance to the Eurasia Foundation Project supports an independent, grant-giving foundation which will use public and private resources to foster the process of economic and political reform in the New Independent States. Key objectives of this activity are to reach a wide range of groups quickly with targeted assistance and to increase the numbers, as well as diversity, of groups receiving U.S. government funds.

### **Time Frame**

The Eurasia Foundation received its initial grant from USAID to work in the New Independent States in 1993. This grant agreement is scheduled to end on December 31, 1997. In FY 1996, Eurasia was allocated \$3.5 million for Ukraine. \$3.5 million is requested for both FY 1997 and FY 1998.

### **Expected Results**

Under Eurasia's small grants program, Eurasia will continue to complement USAID's larger development program in Ukraine, specifically in the areas of economic reform, government reform and nonprofit sector and media and communications. Under Eurasia's small business lending program, Eurasia will continue to work with the Aval bank to provide loans to commercially viable businesses that do not have access to capital, and to provide training in western style credit analysis and loan portfolio management.

### **Performance**

In FY94 and FY95, Eurasia awarded roughly \$1,700,000 of small grants in the strategic areas of economic reform, government reform and nonprofit sector and media and communications. To date, under Eurasia's small business lending program, 10 loans valued at \$ 420,000 have been awarded to businesses in Eastern Ukraine.

### **Overall Progress**

In FY94 and FY95, the Eurasia Kiev Regional Office awarded roughly \$1,700,000 of small grants in the areas of economic reform (48%), government reform (23%) and nonprofit sector and media and communications (29%). Eurasia also has a small business lending

program, which operates in conjunction with Aval Bank to provide business plan assistance as well as capital to businesses seeking low-interest, hard currency loans. To date, Eurasia has awarded 10 loans in Eastern Ukraine valued at \$420,000.

### **ENT's Significant Contributions**

The Eurasia project is based on the premise that a free-standing, autonomous private foundation can provide both intellectual leadership and significant assistance in the overall USG effort, private and public, to help Ukraine enter the free world as rapidly and productively as possible. Eurasia's sectoral areas of concentration overlap and support many of the Mission's Strategic Objectives. Eurasia consults with USAID technical staff regularly in order to program their activities to best complement USAID and other donor/organization efforts. Examples of areas where Eurasia and the Mission collaborate well are media and communication, NGO development and the small business lending program.

### **Expected Progress in 1997 and 1998**

In Ukraine, Eurasia plans on providing small grants in their three main strategic areas, namely, economic reform, government reform and nonprofit sector, and media and communications. In addition, Eurasia will provide more targeted assistance in the following areas: 1) business and economic education and training 2) private business development, 3) small business lending, 4) economics education, 5) NGO development and 6) electronics communication. Eurasia also plans to continue their small business lending program, which recently raised its loan ceiling to \$100,000 and now operates in sixteen regions in both Eastern and Western Ukraine. Eurasia is actively working to leverage other resources from organizations and private businesses for their activities.

## **Special Objective Medical Partnership**

### **Rationale**

Health care systems in Ukraine are deteriorating. They suffer from insufficient funds, centralized bureaucratic control, and a lack of up-to-date education. The Medical Partnership program introduces appropriate responses to the difficulties faced by Ukraine's health care system by creating institutional and professional linkages between US and Ukrainian clinicians, health care managers, other health care professionals and policy analysts. Significant health care issues are addressed through the improvement of the efficiency and effectiveness of health care organization and delivery, and the development and strengthening of existing health management development programs.

### **Time Frame**

The Medical Partnerships began in Ukraine in 1992 under a cooperative agreement with the American International Health Alliance (AIHA). Two partnerships were established in 1992, two in 1993, and a fifth established in 1995. A sixth partnership has been discussed but has not been established. The cooperative agreement will expire in December 1998.

### **Expected Results**

Each partnership has its own area of attention: obstetrics/gynecology (Kyiv), to establish and replicate pre-natal centers to decrease in-hospital infections, decrease length of hospital stay, and decrease post-partum complications for mother and child; surgery and infection control (Odessa), to decrease in-hospital infection rates and establish cost-effective surgical procedures; neonatology and rheumatic fever (L'viv), to decrease neo-natal mortality, increase the survival rate of premature babies, and regionalize neo-natal centers; ophthalmology (L'viv), for early detection of ophthalmological diseases; trauma care/emergency medical services(EMS)/infection control (Donetsk), to establish new orthopedic protocols, especially for traumas particular to industrial regions (e.g. coal miners -- explosions, crashes underground); paramedic programs/licensing (L'viv), to increase the number of trained paramedics; and a special program in EMS, to establish a center for mass casualty treatment and serve as national first-response capacity, aimed at reducing delays in responding and reducing complications and mortality.

Partnerships will continue their efforts in continuous quality improvements and result dissemination. New initiatives will include a comprehensive women's health activity and a breast cancer screening, diagnosis and treatment program. The new partnership initiatives will complement the existing USAID Women's Reproductive Health Initiative and a new breast cancer initiative in Ukraine.

## **Performance**

**Kyiv:** Maternal mortality rate now zero; in-hospital stay decreased from 7.4 to 4 days; 62 % perinatal mortality reduction since 1993; 30% decrease in abortions; rooming-in facilities for mother and new-born; school established for young mothers and fathers to train for delivery.

**Odessa:** 600 laparoscopic cholecystectomies performed, a new procedure; reduction of in-patient stay for surgical patients from 11 to 3.8 days; overall stay reduced 15%; reduced morbidity and mortality; and a 50% reduction in nosocomial (in-hospital) infections.

**L'viv: (neonatal and rheumatic disease):** ICU for new-borns created; in-hospital new-born mortality reduced 6.3/100 to 3/100; new rheumatic screening procedure in use; protocols developed for rheumatic fever and rheumatic heart disease; and a rheumatic disease center created.

**L'viv (ophthamology):** 40% increase in potential for early detection of myopia and cataracts; 20% decrease in vision-related disabilities, new treatment procedures implemented to assist restoration of full vision.

**Donetsk (new partnership in 1995 covering orthopedics, trauma, EMS);** initial US/Ukraine exchanges have taken place.

**Kyiv EMS Center:** 134 health care professionals (doctors and nurses) were trained and licensed; first course conducted 11/95 (too soon for mortality or complications data); city health administration ordering new equipment, at their expense, for ambulances as a result of training.

## **Overall Progress**

To date the medical partnership program, through the American International Health Alliance (AIHA) Medical Partnerships, has achieved the following results:

- **Odessa Oblast Hospital** introduced new contemporary laparoscopy surgical techniques and new infection control protocols; 650 laparoscopic cholecystectomies were performed; in-patient time reduced 35%; 50% reduction in purulent complications after the surgeries; infection control conferences jointly sponsored with Ministry of Health familiarized 400 health professionals throughout Ukraine to the new infection control procedures.
- **L'viv Railroad Hospital** was provided an extensive training in the area of ophthalmology which led to a 40% increase in capacity for early detection of myopia and cataracts and associated 20% decrease in vision-related disabilities.
- **L'viv Oblast Hospital (LOH)** acquired new treatment protocols for neonatal

resuscitation, resulting in a reduction in mortality rates for pre-term infants of 52/100 live births; New Level II Neonatal Regional Center was established due to the partnership activities, and as a result of a joint conference on Neonatal Resuscitation with the Ministry of Health this partnership experience was acknowledged as a model for replication nation-wide for Ukraine; the transurethral operating room was opened at LOH resulting in an average decrease in the length of stay for urology surgical patients of 81%; a L'viv region-wide initiative for detection and prevention of rheumatic fever was formally recognized by the Oblast Health Administration as a priority for the region and a decree on establishment of the Rheumatic Fever Control Center supported by the local authorities was issued.

- Center for Maternal and Child Care on the Left Bank of Kyiv recorded zero maternal mortality rate; mortality rate for newborns under 7 days decreased by 2%; and as a direct result of establishing the School for Young Mothers and training on neonatal resuscitation, the Center reports a 62% decrease in perinatal mortality since 1993. Two conferences on Updates on Pediatrics and Obstetrics were held with a total of 350 participants from Ukraine, Belarus and Moldova.
- National Emergency Medical Services and Disaster Medicine Training Center was created in Kyiv with full and official support of the Ministry of Health of Ukraine and Kyiv City Health Administration.
- New partnership focused on trauma and emergency medicine announced in Donetsk.
- Total number of exchanges in person-days is 6,058.

### **ENI's Significant Contributions**

USAID is providing technical assistance to address significant mortality and morbidity issues, improve health care organization and introduce market-oriented solutions to hospital and health system delivery and finance problems. In addition USAID is supporting programs focusing on (1) closing the health care knowledge gap so that preventive and curative techniques can be adapted and disseminated, (2) improving efficiency and productivity of existing health providers through better clinical and administrative management and organization, and (3) training policy-makers and administrators at all levels of government so they can make informed choices and rational system changes with respect to delivery system reform. USAID also provides limited funds for training equipment to support medical partnership projects.

### **Expected progress in 1997 and 1998**

In 1997 and 1998 the partnership program will introduce two new projects on Breast Cancer

Screening and Comprehensive Women's Health Centers with a potential for these to serve as models for replication nation-wide. The existing partnerships will focus on low-technology solutions which can improve productivity and which are economically viable. AIHA partnerships will continue to work with relevant Ministry of Health, local and regional health systems administrations, and schools of health sciences to ensure that critical areas of health education and administration are adequately addressed and the capacity to carry out other developmental assistance efforts is enhanced.

In achieving these goals the partnership program will support the introduction of market-oriented mechanisms in health care, ensuring the prioritization and replication of the already existing successful partnership initiatives and extending that experience to the regional and national level.

## **Special Objective**

### **Women's Health/Family Planning**

#### **Rationale**

The Women's Reproductive Health Initiative (WRHI) is designed to respond to the high maternal/infant mortality and morbidity in Ukraine. Maternal death rates in Ukraine are four times higher than in Western European countries with similar fertility rates. Approximately 45% of maternal mortality is caused by obstetrical conditions and the dependence on abortion rather than contraceptives for fertility control. The acute economic crisis in Ukraine has had a severe impact on medical care. Medical costs related to abortion complications are very high and have been estimated by the World Bank to be four times the cost of supplying contraceptives nationally. The WRHI introduces contraceptives as a safer, more economical health intervention.

#### **Time Frame**

The WRHI was initially funded under a \$3 million Congressional Earmark for Family Planning in FY 1995, with activities based on a Reproductive Health assessment completed in 1994. Activities were initiated in Donetsk in June 1995, after earlier assessment visits. In FY 1996, Ukraine was allocated \$3.875 million under another Family Planning Earmark; \$2.7 million is being programmed to continue and expand the activities in the WRHI and \$1.175 million will fund women's health activities under the medical partnership program. The FY 1996 funding of \$2.7 for the Ukraine WRHI which will be obligated by the Global Bureau in FY 1997 is expected to fund the program through 1998.

#### **Expected Results**

The WRHI works to improve the access and quality of Ukrainian Reproductive Health Services through the introduction of modern contraceptives to medical providers and women clients as safer, more effective alternatives to abortion. Activities focus on the training of trainers, curriculum development, clinical training, service delivery management, and increased public awareness to assist the oblasts to expand and institutionalize reproductive health services beyond the centers and into other oblasts. The WRHI has established three oblast model training centers in Donetsk, Odessa, and Lviv and expects to open a fourth site in FY 1997. Assistance is provided in safe maternity care practices and improved breastfeeding practices which reduce infant and maternal mortality and morbidity.

#### **Performance**

Under the Women's Reproductive Health Initiative the project sites and later the surrounding

oblasts are expected to demonstrate an increase in modern contraceptive use resulting in a 15% decrease in abortion by the end of 1998; and updated family planning and maternity care training will be fully integrated into the medical education system in project oblasts.

### **Overall Progress**

To date the WRHI has experienced the following achievements:

- Model demonstration sites were established in Donetsk, Odessa, and Lviv;
- Oral contraceptive use has increased from 3% to 10% in Donetsk;
- The Ministry of Health issued a decree promoting rooming-in (mothers and infants are permitted to stay together in the same room) and breastfeeding, both of which lead to improved infant health;
- Two hospitals in Donetsk oblast offer 100% rooming-in to post-partum women and newborns;
- Post-partum hospital stays have been reduced by 40% for normal deliveries without complications and by 50% for cesarian section deliveries without complications at the model site in Donetsk;
- Reproductive health training is institutionalized into medical residency training at the Donetsk model site;
- Significant roll-out training in Donetsk and Odessa has expanded family planning training through out both oblasts;
- Videos and brochures have been developed in Ukraine to increase public awareness;
- These results represent significant, positive steps toward achievement of the project goal, a 15% reduction in abortion by 1998.

### **ENI's Significant Contributions**

USAID is providing technical assistance to update family planning, breastfeeding, and maternity care practices and incorporate sustainable training into the medical education system to insure a constant flow of highly qualified reproductive health care providers. Additionally, USAID is supporting a public education program to inform Ukrainians of alternatives to abortion as a means of birth control. USAID also provides contraceptives and limited equipment to support the model sites.

### **Expected Progress in 1997 and 1998**

In 1997 and 1998 the WRHI will establish a fourth model demonstration site and initiate an activity to increase private sector contraceptive sustainability. The existing model sites and oblasts will experience increases in the use of modern contraceptives and a concomitant reduction of abortion. Sustainable family planning and maternity care training will be fully integrated into the medical education system in project oblasts. The WRHI will increase activity supporting indigenous NGOs at the oblast and national levels.



**Part III. Resource Requirements**  
**A. Program Funding Request by Strategic Objective**

**SO 1.1 Increased transfer of state-owned assets to the private sector**

The total request for FY 1998 for SO 1.1 is \$10.0 million.

**IR 1.1.1 Medium and large state enterprises fully privatized.**

For the achievement of this Intermediate Result, \$4.0 million is requested for privatization activities per se.

The current national certificate privatization program is scheduled to be complete by 1998. It is clear, however, that there will remain a considerable number of medium and large enterprises to be privatized, which will still require additional technical assistance. A major source of the remaining privatization pipeline is expected to be the so-called "negative list" of 6,000 large and medium enterprises currently prohibited from privatization by the Parliament. Moreover, experience elsewhere in the region shows there are inevitably residual state shares that materialize after certificate auctions are over. These should be sold for cash.

Beyond the scope of the current mass privatization program are an estimated 44,252 unfinished buildings under construction, over 9,000 of which are production facilities. Privatization of these is highly desirable since unfinished facilities, unlike ongoing enterprises, are likely to present potential investors with opportunities to initiate businesses without old strings attached. It may be possible to use the existing mass privatization auction center network to privatize these objects. FY 1998 funding is thus expected to support a combination of cash sales, and the preparation and auctioning of remaining enterprises, residual enterprise shares, and - possibly - unfinished construction.

The Ukrainian Center of Certificate Auctions (UCCA), with its network of Regional Centers, will almost certainly be key to any of these programs. We anticipate continuing to finance the operations of the centers, while seeking growing host country contributions. At the very least, the UCCA must be supported into early 1998 to supply data from which consolidated registers of shareholders can be drawn up for enterprises sold through the current program of certificate auctions.

USAID will also continue to fund technical assistance for policy and legislative improvements to assure that an appropriate legal and regulatory framework is adopted for the management of the privatization process. We will closely coordinate these efforts with other donors.

An additional \$1.0 million for public information will be essential to assure that these programs remain clear and transparent to the public. As at present, the public information program will serve as an omnibus vehicle for related programs to e.g., inform the public about shareholder rights, rights as land owners, and so on.

#### **IR 1.1.2 Small-scale enterprises are sold**

The GOU has announced that small-scale privatization will be complete by mid-1996. This is highly unlikely, although about 32,000 of an estimated 45,000 small enterprises will be private by the end of 1996. USAID assistance will be extended only through the Spring of 1997 by which time about 35,000 small enterprises will have become private. Further sales are likely to continue slowly through 1997 and perhaps into 1998 but shall be the sole responsibility of the Government of Ukraine.

#### **IR 1.1.3 Residential buildings are privately owned**

#### **IR 1.1.4 Land is Privatized (urban, rural, and agricultural)**

The resource request for these two Intermediate Results for FY 1998 is \$5.0 million, all of which is expected to be devoted to land privatization. These funds will support the national and local governments and the private sector to continue to work on the systemic issues of land reform. FY 1998 funding is expected to support pilot and roll-out efforts in a number of areas - land auctions, zoning, enterprise land privatization and sales, titling and registration, land taxation, distribution of agricultural land certificates, land assessment and mortgage development.

#### **Consequences of a 20% Reduction**

A 20% reduction would be absorbed more or less equally by the land and industrial privatization programs. Since they are, to a growing extent, mutually reinforcing, a reduction in one program impacts the other. Thus, a general scaling back of expectations rather than cutting one program would be needed. Since public understanding of all these programs is a pre-condition for any of their success, public information programs cannot be further reduced (the FY98 request is already less than 20% of current funding levels to inform the public).

## **SO 1.2 Increased soundness of fiscal policies and fiscal management practices**

The resource request for SO 1.2 for FY 1998 of \$4.45 million. Significant progress is finally occurring in the both the budget and tax projects at the Ministry of Finance (MOF), as well as expected impact at the policy level, reinforcing already existing technical work, which could occur through the contribution of the HIID advisors.

The following objectives will be pursued:

### **IR1.2.1 MOF budgeting and financial management practices are reformed**

The budget projects at the Ministry of Finance (MOF) are being expanded, given the recent increase in receptiveness of the counterpart, and by the end of FY 1998 we expect to see a professional budgeting department supported by modern techniques of macroeconomic forecasting, budget preparation and intergovernmental finance. Specifically, the Budget Policy and Macroeconomic Forecasting unit at the MOF is making slow but steady progress, and there is increasing cooperation with the MOE in the forecasting effort. The most important bottleneck continues to be the Ministry of Statistics, but even here we are beginning to see greater cooperation in the provision of data, and this may be supplemented by some joint training. The Territorial Budget unit is making increasing use of the intergovernmental model to study alternatives to the current system using a formula approach, which would improve both expenditure control at the national level and autonomy and accountability at the local level. We will be soon adding a third element to the Ministry of Finance project which will focus more directly on preparation of the overall budget, to pull together and supplement our work in the macroeconomic forecasting and intergovernmental finance areas. The other direction we will now be taking is to complement our Ministry of Finance-based intergovernmental finance work with efforts to strengthening the budgeting process at the oblast level, and perhaps also at the municipal level on a pilot basis.

Work at the Ministry of Finance, given the nature of that institution, will continue to be difficult. Given the pivotal role that the budget process plays in economic stabilization and how it underlies all elements in the transition process, this has to be a critical part of our strategy.

### **IR1.2.2 Creation of a market-oriented tax system that encourages compliance**

In the area of tax policy, U.S. Treasury advisors are supporting a Parliamentary Working Group in drafting a single tax code that will modernize and codify the major tax laws, including VAT, corporate and individual income tax, excise taxes, and administrative provisions. By the end of FY 1998, we expect to see all of the elements of the tax code enacted into law, and either implemented or in the process of implementation. In the area of

tax administration, a U.S. Treasury Advisor is working on development of functional specialization and a broader range of enforcement options for the State Tax Inspectorate. Special emphasis is being placed on training, including the development of a training school for tax officials from all over Ukraine (with a one-time only funding from USAID for equipment and "training the trainers"). By the end of FY 1988, we expect that the training school will be self-sustaining and heavily engaged in preparing Ukraine's tax officials to understand and enforce the new tax code and its administrative provisions.

### **Consequences of a 20% Reduction**

A 20 percent reduction in funding would hamper our ability to complete all projects at the Ministry of Finance in the budget area. The development of a modern budget department at the Ministry of Finance is arguably one of the most critical tasks for USAID. The Government of Ukraine's ability to more accurately forecast and plan its revenues and expenditures so that the budget can be implemented in an orderly and responsible way, is pivotal to successful execution of progressive macroeconomic policy and privatization decisions.

## **SO 1.3 Accelerated development and growth of private enterprises**

The total request for FY 1998 for SO 1.3 is \$38.9 million.

### **IR 1.3.1 Free availability and flow of business-related information**

\$1.0 million is requested for this Intermediate Result for FY98 to support ongoing USDA programs to disseminate agricultural information within Ukraine.

Other activities, budgeted against other IRs below, will have a significant impact on the availability of business information. The principal one will be the NewBizNet project, where the main focus in FY98 will be assuring the sustainability of business service centers. It is expected that direct USAID support for commodity exchange development will be complete by FY98. Any ongoing assistance to commodities markets and/or real estate professional organizations in FY98 will likely be through grant-funded intermediaries such as the Eurasia Foundation, and will not require direct AID funding.

### **1.3.2 Improved application of market-driven business skills**

\$3.0 million is requested for this Intermediate Result for FY98. This is expected to provide the final increment of funding for the NewBizNet project. It will also support assistance to very small enterprises, perhaps through expansion of a grant for post-privatization assistance to small enterprise that will be underway by the end of the current fiscal year. Agribusiness partnerships will be a major factor in increasing business skills in agriculture, but are discussed and budgeted under IR1.3.4 below.

### **1.3.3 Legal, regulatory and political environment conducive to sustainable enterprise growth**

\$3.1 million is requested for this Intermediate Result for FY98 and will likely be devoted entirely to commercial law and bankruptcy systems development. The proposed funding will ensure that bankruptcy reform continues to benefit from U.S. expertise in developing appropriate legal and regulatory frameworks for the management of a market economy, particularly with respect to: the financial restructuring of troubled enterprises and assisting the Ministry of Justice and the arbitration courts in developing, administering and enforcing new laws; arbitration or other alternative dispute resolution mechanisms; and commercial legal systems, especially the development of company law concepts of fiduciary duty and conflict of interest.

Antimonopoly and competition, and trade issues will be addressed as necessary. But current programs in those areas are expected to be complete by FY98. It is also anticipated that the introduction of a market economy will lead to the need for development of additional commercial legal systems that cannot be precisely identified or quantified at this time.

Other objectives under the legal and regulatory environment will be addressed through activities budgeted under other Intermediate Results. Approximately \$500,000 to complete AID support for accounting reform is, for example, included in the \$5.0 million requested under IR1.3.4. These funds will assure the ability of the professional accounting organization (SRO) to promote the use of international accounting standards at the enterprise level and will thus be included in a larger enterprise restructuring program. Similarly, funds requested against SO1.4 will support continued development of self-regulatory groups in that category.

SO1.4 funds will also support continued development and application of corporate governance standards.

#### **IR 1.3.4 Selected interventions provide a "jump start" to increase firm-level investment, competition and productivity**

\$15.55 million is requested for this Intermediate Result for FY98, in addition to the \$15.0 million planned for the West NIS Enterprise Fund.

Of the \$15.55 million requested by the Mission, \$5.0 million is expected to finance ongoing development of Ukrainian capacity to restructure privatized medium and large scale firms. As mentioned above, this will include development of internationally accepted accounting standards at the firm level. The nature of the program in FY98 will depend on the availability of funds to start the activity in FY97 (funds were not available to begin the program in FY96 as originally hoped).

\$10.25 million is requested for incremental financing of the second phase agribusiness partnerships program that begins this year. The proposed funding will continue to support development of private, joint ventures between U.S. and Ukrainian firms. The objective of this ongoing program is to develop alternative, private, market-driven enterprises that supply agricultural inputs, technology and training to Ukrainian farmers, provide free and open market outlets for farm production, create private processing enterprises to increase value added in the agricultural sector and catalyze the restructuring of the agro-industrial complex.

This core program is reinforced by other programs in the agricultural sector. Support to private commodity exchanges and USDA market information were discussed above. Support to private agricultural finance mechanisms will be started this year through the Ukrainian Agricultural Development Company and should be entirely financed through private sources in FY98. Agriculture sector policy advice and guidance through Iowa State University may need incremental funds in FY98. If so, the funds required will be less than \$1.0 million and can be drawn from planned funding for agribusiness partnerships.

The planned FY98 funding level for the West NIS Enterprise fund is \$15.0 million. Actual funding should be based on the status of the Fund's activity at that time. In addition to investing U.S. Government funds, it is anticipated the Fund will attract capital from other sources.

\$300,000 is requested in FY98 for technical assistance to selected environmentally sound small businesses in the Carpathian region. Support will also be provided to put mechanisms in place for the coordination of public and private business planning, as well as for the continued development and implementation of local and national policies and procedures aimed at protecting natural resources while stimulating business development.

USAID funding for the "Alliance" of business-oriented PVOs is included in the budget requests for specific activities above. Under a three-year agreement to be signed shortly, Alliance volunteers will work on a range of activities in business development and in other parts of the Mission's core program.

Program design and management costs are additional to the requests listed above.

### **Consequences of a 20% Reduction**

1998 will be a critical year for the development and growth of private enterprise in Ukraine. Economic reform is finally gaining momentum. If private enterprise does not successfully generate employment and income during the next few years, reform will fail. FY98 is a year to increase, not decrease, resources to this Strategic Objective.

If, however, reductions are necessary, the Enterprise Fund must take its share of activities critical to sustain private enterprises across the board, not simply invest in a number of them, will be lost.

A 20% reduction in the program level for the Enterprise Fund would leave about \$3.0 million in cuts to be absorbed elsewhere. Since private commodity exchanges should be disseminating agricultural information effectively by 1998, the USDA information program could be eliminated. Funding for post-privatization assistance to enterprises could be reduced, but only by reducing the number of Ukrainian enterprises assisted. Agribusiness partnerships could be slightly reduced, although the leveraging of private investment under this program magnifies the negative impact of any reductions. Reducing planned commercial law activities would have a significant, adverse effect on this portion of the IR. Very likely, it would result in the elimination of one component, probably arbitration or other means of alternative dispute resolution. Given the significant impediment that the current level of state duty for the initiation of arbitration court proceedings now presents for court-based resolution of commercial disputes, elimination of this component of USAID assistance could be meaningful, and adverse.

## **SO 1.4 A More Competitive and Market-Responsive Private Financial Sector**

The resource request for SO 1.4 for FY 1998 of \$9.75 million reflects a level of funding which will give USAID and its partners the ability to implement all the elements essential for the achievement of the SO, and allow a long enough gestation period that activities will be sustained once donor assistance is withdrawn.

### **IR 1.4.1 Market-oriented private banking sector developed**

\$5.75 million for FY 1998.

**Developing the Financial Infrastructure:** This is a priority because it is a necessary condition for building public confidence in the banking sector and using it as a depository for financial savings. Specific activities include bank supervision, accounting reform, and collateral registry (1.4.1.1). By the end of FY 1998, in part as a result of USAID-funded resident advisors program, we expect to see a professional bank supervision department developed at the National Bank of Ukraine (NBU), just as we are beginning to see this in Poland after four years of a USAID program. Bank supervisors throughout Ukraine will have scheduled systematic inspections with established policies and procedures. Their work will be complemented by an off-site surveillance system. The legal infrastructure will be sufficiently articulated to give bank supervisors necessary enforcement powers, including bankruptcy liquidation procedures for banks. A problem bank unit will also have policies and procedures. All banks will adhere to internationally accepted accounting standards. A fully functioning collateral registry will be operating.

Conventional wisdom is that it takes 3-5 years to train a bank supervisor in the U.S., where there has been decades of accumulated experience. In Ukraine, we should expect it to take time to achieve a sustainable change in the banking sector, a highly technical area but one in which extended experience is critical. Our work will be greatly facilitated by the EC/TACIS program which will bring people from National Bank of Ukraine to European central banks to work with counterparts. This program will start early in 1997.

**Deepening the financial sector:** This concerns the transfer of human capital, western banking methods, to Ukrainian banks. Specifically we are working with our Ukrainian counterparts of the National Bank of Ukraine and the Ukrainian Bankers Association in a centralized bankers training institute, the National Center for the Training of Bankers. The next phase of our program will be pilot programs, where market perfections are identified, as part of larger credit facilities such as the ones funded by the EBRD (1.4.1.2 - 1.4.1.4). Equally critical to developing a market-oriented private banking sector is to include training bankers in the fundamentals of Western banking practices. We have worked with the National Bank of Ukraine and its reform-minded Governor in developing the National Center for the Training of Bankers. We expect to continue our support up through FY 1998, but at a

steeply declining rate. To this end, beginning in FY 1996 we have instituted a "train-the-trainers" program so that skilled Ukrainian instructors will be able to begin staffing the center as USAID assistance is reduced.

The second part of our program in this area (having made a good start in training cadres of bankers versed in risk-based lending techniques), is to work through specific institution-building programs to catalyze lending to private businesses where private business have no credit history and track record. Here, work we have done, such as developing a collateral registry, will feed in directly. An example of one such facility currently operating in Ukraine is the EBRD small business lending facility. We are projecting a two year program beginning in FY 1997 for this financial sector deepening work.

#### **IR 1.4.2 Transparent and open securities systems established**

The proposed funding of \$4.0 million will assure that important regulatory initiatives to safeguard the interest of capital markets investors initiated in earlier years are completed. This includes the twinning arrangement of the U.S. and Ukrainian securities commissions for general and case-specific policy advice and training, as well as expanded self-regulation by increased numbers of market participants. The funding will also allow for the completion of programs associated with the monitoring of pension fund portfolio activities, along with the critical administrative and operative functions of clearing and settlement, depository and transfer agent operations.

#### **Consequences of a 20% Reduction**

A 20 percent reduction in funding would force a more rapid withdrawal from bank training efforts, which could mean that the facility will not become a self-sustaining entity. It would also reduce, if not eliminate, our ability to participate in programs like the EBRD facility. It would also limit our work in the problem bank area which, given the fragility of the system, is a priority of the NBU Governor.

## **SO 1.5 A more economically sustainable and environmentally sound energy sector**

The request for FY 1998 for this SO is \$8.4 million. This includes a continuation of restructuring work for the power sector, as well as more work in the development of fuel resources.

### **IR1.5.1 Independent, financially sustainable electricity system**

Approximately \$4.0 million is requested for this activity. Funding will be needed to continue to support the process of obtaining capital investment funding through investment planning and strategic, private investment in the electricity sector for selected key entities. In addition, additional work will be done with the National Electricity Regulatory Commission (NERC) to ensure its optimal functioning as the independent regulator for the system. This will likely include on-the-job training as well as assistance in drafting procedures and regulations in such areas as consumer cases and dispute resolution. Finally, we anticipate completing work on the demand side management system for the sector. We envision continued cooperation with the World Bank and other key donors under the program to leverage our assistance dollars. It should be noted that this program is potentially one of the most successful in the entire region, as it represents an unprecedented introduction of market terms for the electricity system. Continuation of funding through FY 1998, however, is premised on the continued success of intermediate steps.

### **IR1.5.2 A More Stable Fuel Supply**

We request \$4.0 million for continued development of fuel supply needs. This will include continued work in coal sector reform with an emphasis on the development of more sophisticated business planning for select "viable" mines, as well as work towards strategic investment/privatization. Of course, this would depend on the continued commitment of the Government of Ukraine towards reform in this sector, as well as continued progress for the surviving mines. Additionally, we envision more development of investment opportunities in the oil and gas area. An important pre-requisite for this is an adequate legal framework which we expect to see by this time. We also expect that by this time coal bed methane work will be done solely in the private sector. Additional assistance in improving distribution for fuel as well as the financial terms (including debt restructuring) for purchase, however, will be needed.

### **Consequences of a 20% Reduction**

In the event of a 20% reduction in funding, we would take an across the board reduction of assistance, unless we could identify a particular element at that time which represented a lower priority given insufficient progress. This type of projection out over a two year period is almost impossible at this stage.



## **SO 2.1 Increased, better-informed citizens' participation in political and economic decision-making.**

The FY 1998 funding request for SO 2.1 is \$6 million.

Whereas increased and better-informed participation by citizens can already be observed, Ukraine's long history of political repression virtually abolished the functioning of a civil society as we know it in the West. Many of the intermediate results in this SO will continue to develop over generations.

### **IR 2.1.1 Increased confidence in the political process**

Through the demonstration effect of successful citizen and NGO advocacy on behalf of citizen interests, and a more transparent electoral process, citizens will gain more confidence in the political process and participate more. During FY 1998, funding will go to the continuation of technical assistance to promote the development of political parties, involve citizens with the national and local political process, activate citizenry to influence the political process, support adoption of a new political party and NGO law, establish a permanent domestic poll-monitoring capability, and improve enforcement of election-related laws. Furthermore, civil society and NGO development activities will continue to support a growing number of more effective public action NGOs that successfully advocate on behalf of citizen interests.

### **IR 2.1.2 More unbiased public information available to citizens**

Through enhanced news coverage, easily available public information repositories, and greater transparency in government decision-making, more unbiased public information will become available to citizens. With the proposed FY 1998 funding, our media center and other media activities will continue to provide assistance to independent print and broadcast media through technical support, training, and improved access to national and international news sources.

### **Consequences of a 20% Reduction**

In the event of a 20% reduction in the program level, the scope of USAID's effect on this Strategic Objective will be diminished, and, because this SO contributes to the magnitude of economic as well as democratic reforms, a 20% reduction will adversely affect our continuing results in other areas. Specifically, USAID's assistance will reach fewer citizens and NGOs, diminishing the demonstration effect necessary to overcome 70 years of suppression of civil society. Several hundred NGOs, in a country with only about 5,000, will not receive USAID assistance, which is often the factor determining whether or not it will survive, given the difficulty to become self-sustaining during this period of economic transition. More importantly, programs to increase transparency in the political process,

such as promoting the development of media free from political influence, will have less impact in the regions where local officials essentially determine the pace of reforms in their regions. As with all of the activities in this SO, USAID's media activities will be most effective when combining policy changes at the national level with specific technical assistance at the regional level. USAID would not be able to continue to support media business initiatives in most regions, such as development of alternative distribution systems or printing presses, that should complement technical assistance.

## **SO 2.2 Create legal systems that better support democratic processes and market reforms**

The overall FY 1998 funding request for SO 2.2 is \$4.7 million including program design and management.

### **IR 2.2.1 Courts are empowered to be independent and coequal branches of government**

Lacking a tradition of an independent judiciary and an awareness among the public of their rights, a longer period will be required to develop the judiciary as a co-equal branch of government. FY 1998 funds will continue to empower judges by institutionalizing an in-house training capacity, establishing reliable compendiums of current laws and procedures, explaining new laws, and teaching judges to understand their role in an independent branch of government.

### **IR 2.2.2 Constitution, Civil and Criminal Codes are rationalized**

Although Ukraine is likely to adopt a new constitution in 1996, it will take years to adopt supporting legislation and rationalize laws. During FY 1998, funding will go to the continuation of technical assistance to improve legislative drafting and rationalize the civil and criminal codes, focusing on information and procedures of passing legislation, improving intergovernmental relations, and establishing a Control Chamber to oversee the budget process. (Additional support for strengthening oversight of the budget process is also being provided under SO 1.2, IR1.2.3.) In addition, research and analytical skills would be supported and improved utilizing the three years of legislative strengthening activities already established.

### **IR 2.2.3 Increased public awareness of laws and procedures**

Greater public awareness, as a result of increased NGO advocacy, public education efforts, better media coverage, and greater access to official information, is necessary to achieve the strategic objective. We will continue to provide assistance to a growing number of advocacy and public policy NGOs, and to independent print and broadcast media. As is the case in FY 1996, grantees and contractors contributing to this SO are projected to fully expend prior year obligations well before the end of FY 1998.

### **IR 2.2.4 Improved impartial application of laws**

More impartial application of the laws will depend on an independent judiciary as well as improved law enforcement, greater transparency and exposure of corruption in the government. To support this IR, we will continue to assist in the creation of a unified bar association, provide continuing legal education for legal professionals, and support curriculum and other reforms in law schools.

### **Consequences of a 20% Reduction**

A 20% reduction in the program level will adversely affect the pace of economic reform in Ukraine as well as the achievement of this SO. Ukraine needs a legal system which will promote investor confidence by adopting rational legislation, reliably enforcing contracts, and reducing corruption and organized crime. This is a critical period in Ukraine's transition. A new Constitution and new civil, commercial, and criminal codes are expected to be adopted between now and the end of 1997. Once that is done, the implementation of this new legislation will begin. USAID's activities will continue to support rationalization of laws, education of judges and lawyers, and the establishment of the courts as an independent and impartial branch of government, but there will be little incentive for officials to implement many of the changes without the public demanding accountability for such change. With a 20% reduction in funding, USAID activities would not be able to support the increased NGO advocacy needed to provide the bottom-up demand for impartial implementation and enforcement of the law, thus prolonging the pace of reforms. Specifically, USAID would not be able to support scores of legal and advocacy NGOs which will eventually be at the forefront of promoting economic and political reform in contrast to many official establishments which are resisting many aspects of legal reform.

## **SO 2.3 More effective, responsible and accountable local government**

The total request for FY 1998 for SO 2.3 is \$2.5 million.

### **IR 2.3.1 Improved Management**

Approximately \$.75 million is requested for this Intermediate Result for FY 1998. The proposed level of USAID funding will decrease the budget deficit in six pilot municipalities, improve service delivery and promote good financial planning.

The absence of a decision making tradition and personnel trained in economic policy stems from the centralized decision making of the former Soviet regime. A more accountable intergovernmental system would ameliorate the lack of decision making experience and increase the efficiency of government expenditures.

Although each level of government formulates its own budget, the budget system is still hierarchical. In many ways, the budget system has not changed much from the system used in the former Soviet Union, where the budgets of lower-level governments were nested into the budgets for the entire Soviet Union. The failure to clearly assign expenditures responsibilities means the boundaries between public sector responsibilities and private sector functions remain blurred. Local governments receive revenue from tax sharing and transfers from the central government and from own-source revenues including local taxes, fees, and charges. The current revenue-sharing arrangements between national and oblast governments and between oblast and local governments are problematic. Some problems are conceptual. Others are administrative.

To address these issues, two major types of initiatives are planned. First, greater emphasis will be placed on training municipal professionals through in-country and out-of-country training for local government officials regarding planning operations and management of public administration. Also, using documented experience of Ternopil, Kharkiv, and Lviv, training programs will disseminate successful municipal management techniques to other localities throughout Ukraine.

The fundamentals of privatization will be disseminated to local officials who specialize in areas of local concern. For example, training in the housing arena on condominium formation and private management will be supported, as will training on the mechanics of contracting out other local government functions in the transportation and infrastructure spheres.

### **IR 2.3.2 Increased local authority**

The FY 1998 request is \$.75 million for this Intermediate Result. This funding will increase the percentage of total locally generated revenue in six pilot municipalities.

The institutional framework regulating intergovernmental relations is set out in four key pieces of legislation: the Constitution (still needs to be adopted), the Law on Local Self Government, the Law on the Budgetary System, and the national budget, which is approved annually by Parliament. Currently, several shortcomings are evident. No clear expenditure responsibilities are assigned among the different levels of government, and there is no procedure to resolve competency issues when responsibilities are shared by two or more levels of government. There is no established system of revenue assignment or revenue sharing among the tiers of government, nor is there a transparent system of equalization or intergovernmental transfers. In many ways, local governments still function as they did under the communist regime, carrying out duties, such as ownership of commercial enterprises and the majority of the housing stock, that should be transferred to the private sector. Support is being provided to local interests groups such as Ukraine Association of Cities (UAC), to lobby for national legislation and laws to address the shortcomings of the Law.

### **IR 2.3.3 Increased citizen participation**

Approximately \$.5 million is requested for this Intermediate Result for FY 1998. The proposed level of funding will increase citizens' access to decision-making fora, focusing on target cities using citizen participation for planning. Improving NGO organizational skills and increasing information regarding government operations will also accomplish this goal.

Local governments, primarily the cities and rayons, are responsible for providing communal services (heating, water, sewage, gas and electricity), transportation, and housing. In addition, local governments and state enterprises provide education, health, and sanitation services. Since independence, sub-national governments have also assumed an increasing role in providing the social safety net. However, decisions regarding the allocation of funds still rest largely with the national government.

This lack of clear spending assignments has also undermined government accountability. The current confusion has made it difficult for local residents to determine which level of government is responsible for the provision of particular services, thereby decreasing government responsiveness to voter preferences.

This issue will be addressed by encouraging formation of citizen groups on the local level. Training will be provided to help local government officials be more aware of citizens' needs and to base management decisions on needs of the citizens. In addition, training on the contracting out of formerly state-provided functions will emphasize the importance of putting incentives in place to provide services in accordance with citizen preferences, (e.g., housing maintenance).

### **IR 2.3.4 Greater transparency of Government operations**

Approximately \$.5 million is requested for this Intermediate Result. This funding will be used to increase public archive information of local government operations. Such

information includes: budget copies, public contracts, and election results for every year since made available to the public. This will be accomplished by working through organizations such as Pylyp Orlyk Institute for Democracy (PIOD), Research Triangle Institute (RTI), Institute for Public Administration, and UAC to establish clearinghouses of this type of information.

### **Consequences of a 20% Reduction**

A 20% reduction in the level of funding for this strategic objective would have a definite impact on the results we would be able to achieve.

A lower level of funding would reduce the number of local officials participating in cross-country and in-country training, thereby limiting the dissemination and implementation of successful municipal management reforms. It would curtail the provision of expert legal commentary on national legislation concerning local government reform, though support would continue to be provided upon the request of Government of Ukraine officials. Local governments will be able to organize citizen groups on their own, but a reduction in funding may adversely affect the ability of local governments to organize, publicize and maintain citizen participation on an ongoing basis. Finally, it would limit the public access to documents concerning government operations, management, and pending legislative changes.

## **SO 3.1 Reduced human suffering and negative consequences of crises**

The resource request for SO 3.1 is \$4.7 million in FY 1998. Funding will support the following activities. In addition to this, \$200,000 of training funds is also requested for FY 1998.

### **IR 3.1.1 Selected NGOs strengthened to provide services to vulnerable groups**

To help make social services work for the most vulnerable members of society during Ukraine's economic and political transition, USAID supports the development of NGOs to provide social services to vulnerable groups. NGOs play an important role in the private sector network of organizations providing social services that the government can no longer afford or chooses not to provide. USAID will continue to provide needed training, technical assistance, small grants and institutional support (furniture, equipment, etc) to help develop this budding sector's capability to meet critical needs of the most vulnerable members of society. Additionally, USAID will channel routine humanitarian aid (e.g., warm winter clothing, boots and blankets) directly to the most needy through NGOs who work with these groups.

It is also important to note that this activity directly supports the Mission's objectives under SOs 3.2 and 2.1. Under SO 3.2 "Improved sustainable social benefits and services," NGOs play an important role in the private sector network of organizations providing social services during the immediate crisis and beyond. Under SO 2.1, "Increased better-informed citizens' participation in political and economic decision-making," it is assumed that no civil society can thrive without concepts of civic consciousness, volunteerism, advocacy and democratic participation and governance, and that such concepts are best promoted through a viable and active indigenous non-governmental sector which is being strengthened under this activity.

### **IR 3.1.2 Selected governmental social service institutions strengthened with equipment and supplies**

Government social service institutions such as hospitals, orphanages and homes for the elderly are in a state of serious disrepair. USAID will continue to provide needed supplies such as medical equipment, furniture and clothing to support these institutions provide better services through this difficult transition. This humanitarian aid is provided through the U.S. Department of Defense excess supplies program. Assistance through this program is expected to continue for the next two years.

### **IR 3.1.3 Population protected against emergency health problems and epidemics**

USAID will continue to respond to emergency health crises in Ukraine during the transition and beyond. Emergency health crises not only cause unnecessary suffering and death, but can have a potentially destabilizing effect on Ukraine that in the past successfully controlled such health problems. USAID is the largest donor of vaccine to combat Ukraine's diphtheria

epidemic and provided a year's worth of insulin for children with diabetes. Over the next two years, USAID plans to move away from providing vaccines and other supplies toward greater focus on building country capacity to address critical health problems. Assistance will include technical support from the Centers for Disease Control and Prevention to improve the GOU health monitoring capacity, which will include an action-oriented surveillance approach for diphtheria and polio. In addition, support will be provided to develop international competitive procurement procedures which will assist the GOU to purchase its own vaccines and supplies with Ukraine's own resources at substantial savings. As donor resources dwindle, this USAID assistance will help the GOU resume its responsibility to purchase its own vaccines needed to protect its population.

#### **IR 3.1.4 Humanitarian assistance provided in response to disasters as occur**

USAID will continue to provide humanitarian assistance to respond to disasters such as floods, as declared by the U.S. Ambassador.

#### **SO 3.2 Improved sustainable social benefits and resources**

While the main objective of SO 3.1 is to reduce people's immediate suffering due to the crises, the activities identified provide direct humanitarian aid as well as help to improve the country's capacity to provide social services in the long-term through NGOs and improved GOU health surveillance capacity. For instance, developing social service NGOs will provide immediate services to the needy during the critical transition, but will also develop sustainable private sector social services and benefits through these NGOs. Improving the government's health surveillance capacity and providing them the skills to procure their own needed vaccine through international procurements will help them be able to respond to the health emergencies today, but also help them to prevent health emergencies in the future.

#### **Consequences of a 20% Reduction**

Given a 20% reduction in resources in FY 1998, we would be forced to scale back activities under the NGO social support program and the humanitarian assistance program. It should be noted that the resources requested for SO 3.1 are used largely to leverage other resources (over 20 times) and produce highly visible results that demonstrate to the Ukrainian people that the USG cares about Ukraine and is providing assistance to the vulnerable people during this difficult transition. A 20% budget reduction could substantially reduce the expected results because the majority of funds requested pay for critical administrative costs to carry-out these programs and effectively leverage other resources. For instance, over the last year, USAID provided over \$23 million worth of US DOD excess supplies and private donations as humanitarian aid using roughly \$1.2 million of USAID program funds. And, under the NGO social support program, USAID provides small grants to NGOs to build-up their capacity to provide needed social services to vulnerable groups (e.g., feeding programs for the elderly, assistance for the disabled).

## **SO 3.2 Improved sustainability of social benefits and services**

The total resource request for FY 98 is \$7.3 million. In addition to this, \$300,000 of training funds is also requested for FY 98.

The majority of funds discussed under this strategic objective are designed to meet IR 3.2.1, "Redefined public sector role," and IR 3.2.2, "Policy, legal and regulatory framework for private and public sector roles defined." In addition, activities under the Medical Partnerships (4.1) and the Women's Health/Family Planning Program (4.5) are critical components of USAID's activities under this SO. The funding for these activities is reported separately under Special Initiatives. IR 3.2.3, "Developed private sector benefits and services" in the social sector and some other lower level results are noted also under SO 3.1 and funding toward these results will be discussed under the heading of that SO. The breakout listed below does not include funds designated for project management and support.

### **IR 3.2.1 Redefined public sector role**

This intermediate result will be discussed on the basis of lower-level intermediate results, which support it.

#### **IR 3.2.1.1 New or improved government institutions**

Activities under this intermediate result will improve the quality of health care provided by government health care institutions, which are expected to comprise the backbone of the health care system in Ukraine for many years to come. Continued support will be provided through the American International Health Alliance (AIHA) to the highly successful program of partnerships between American and Ukrainian health care institutions. Successes achieved in the initial years of the partnership program, such as the institution of modern infection control programs in partnership hospitals, will be replicated throughout the country. Funding for these programs is reported under Special Initiatives Medical Partnerships (4.1) and Women's Health/Family Planning (4.5).

This funding will also be used to support a continuation of activities at the local and hospital level on health care financing and service delivery reform. Financial and organizational reforms introduced in selected regions and institutions during 1995 and 1996 will be replicated throughout the country in 1997 and 1998.

Assistance will be provided to the GOU to create institutions capable of administering reformed social insurance and targeted social assistance programs -- for instance, a regulatory agency capable of financially reviewing the operations of private pension funds, or a unified administrative system for targeted benefits for the needy. Social benefits processing will be improved through a unified nationwide computer network to administer social programs (3.2.1.1/3.3). This computerization should assist agencies in enforcing collection of back rent and utilities payments, and in payments of subsidies.

#### **IR 3.2.1.2 Public advocacy/demand**

A USAID-funded program of public education on targeted subsidies for the needy has succeeded in significantly raising public awareness about the availability of these targeted subsidies, and in shifting the balance of public opinion toward support of targeting subsidies to the neediest rather than distributing them evenly among the population, or by occupational group, as was the case in the past. This program has also helped teach GOU officials how to relate to the public, an important component in building democracy. The GOU has requested similar public education programs on other social protection programs, such as food programs for the needy and pensions. This funding request would allow USAID to fund a modest program with a Ukrainian-based organization to conduct this broader public education campaign, which will be particularly critical as social programs are reformed, as well as continuing public education on targeted subsidies.

#### **IR 3.2.1.3 Improved targeting of public sector benefits**

Activities in this area will be split between health care and benefits for the needy. Targeting of government provision and payment for health care services to those illnesses and conditions where the need is greatest will be improved. This will include assistance in improving the Ministry of Health's system of monitoring disease and identifying widespread and severe health conditions among the population. It will also include assistance at the national and local level to make primary care health care services, such as small ambulatory clinics, more available to the population, and on limiting free (government-paid) health care services to a defined package of benefits.

USAID will continue its highly successful technical assistance program in the area of targeted subsidies to the needy. This assistance will focus on broadening the range of benefits covered under the targeted subsidy program, so that subsidies for these benefits (just like those for housing and utilities currently) are targeted to the poor rather than spread among the general population. The assistance will also focus on eliminating privileges for free or half-price services (apartments, medicines, etc.) for special social and occupational groups (war veterans, policemen, teachers etc.).

#### **IR 3.2.1.4. Improved human capacity**

Training programs to develop Ukrainians' capacity to better administer and develop policies to support government reforms are essential to improve human capacity. Training will be provided both in the United States and in Ukraine. Examples of those trained might include actuaries who will need to develop forecasts for a financially sound reformed social insurance system, regulators of private pension funds, and administrators and managers of reformed government social protection and health care institutions.

#### **IR 3.2.2 Policy, legal and regulatory framework for private and public sector roles is defined**

Assistance will be provided to the Ukrainian Government in developing the legislation and policy for a reformed, Western system of social insurance, with defined roles for the public and private sectors. USAID is coordinating its technical assistance in this area with that of the European Union's TACIS program and of the German government. Within this coordinated effort, USAID will continue to focus its efforts on the development of a legal and regulatory framework to permit the existence of private pension funds and regulate these entities to prevent fraud. USAID will also focus on the development of a health insurance system. Under such a system, the role of budget financing, insurance payments and private payment for health care would be clearly defined.

### **Consequences of a 20% Reduction**

In the event of a reduction in program level, the intermediate result to suffer the most would be that of improved human capacity. USAID would not be able to assist in preparing the staff necessary for the Government of Ukraine to run the reformed government institutions created through our joint efforts. Hopefully, other donors such as the European Union and the World Bank would step in to fill this gap, but that is by no means assured.

In addition, assistance in the area of public education for social protection and developing reformed health care financing and management would be reduced.

### **SO 3.3 Increased capacity to deal with pollution as a threat to public health**

The FY 1998 request for this Strategic Objective is \$4.6 million.

#### **IR 3.3.1 More national policies and plans integrate environmental, economic and social goals**

Approximately \$1 million is requested for FY 1998. The proposed level of funding will follow through with the implementation of recommendations from the Ukraine/American Council to Promote Sustainable Development, and the continued participation of the private sector and non-governmental organizations (NGOs) in government decision-making. The funding will ensure the benefit of U.S. and international experience and expertise in drafting and amending national legislation to remove barriers to environmentally sustainable economic development. In addition, the proposed funding is needed to ensure that effective environmental NGOs are strengthened through information exchange, public awareness campaigns, and environmental education. Finally, funding is required to provide U.S. technical assistance and technology to support 24-hour monitoring and assessment of radioactive and non-radioactive environmental contamination outside the designated Chernobyl zone.

#### **IR 3.3.2 Safer and more sustainable -- economically & environmentally -- water infrastructure**

Approximately \$2 million is requested to continue progress in this area. Targeting the source of Ukraine's water supply (rivers and reservoirs) and the water distribution system (vodokanals), as the significant points of contamination, USAID's environment program is focused on building models for intervention at these critical points. While roll-out of some pilots will begin in FY 1997, FY 1998 funding is required to provide technical assistance to evaluate and upgrade piping and pumping facilities, training in natural resource management including water quality monitoring and modeling, water purification, consumption-based billing, cost recovery and reinvestment, and energy efficiency. Other support will provide technology to enable the replication and roll-out of these models to rivers and reservoirs, water utilities, and vulnerable communities throughout Ukraine. USAID is working in partnership with the World Bank and other donors, and the World Bank is expected to provide a \$20 million loan to address the water distribution system in Lviv.

#### **IR 3.3.3 More environmentally sustainable and safer agricultural sector**

No additional funds are requested for this IR in FY 1998.

#### **IR 3.3.4 Safer, more environmentally sound and efficient industrial sector**

Approximately \$.7 million is requested for FY 1998. Funding is required to introduce

systemic changes to industrial energy efficiency, waste minimization and management practices that will attract and enable multi-lateral and private sector investment and reduce risk to public health. In FY 1996 and FY 1997 the foundation is being laid through training of Ministry officials and enterprise operators in energy efficiency and waste minimization practices. In addition, waste is being classified as either hazardous and non-hazardous, and with estimates made of the costs associated with clean up and potential investor liability. Pilot enterprises will adopt the waste minimization and energy efficiency practices. In FY 1998, replication of the model and training and support for the local manufacture and marketing of energy efficient and waste minimization technology will occur. The EBRD has approached USAID about establishing a joint venture with a Ukrainian enterprise to initiate the capacity to manufacture energy efficient equipment.

In addition, funding is requested to replicate the environmentally sound small business development model. This model includes eco-tourism, and is being initiated in the Carpathian region. Technical assistance and training are provided to identify environmentally sound small business opportunities, such as converting waste saw dust to heating bricks, and eco-tourism, and secure capital and technology for ventures. The EBRD has expressed its interest in supporting the development of energy efficient businesses in Ukraine. Roll-out to Crimea is planned to begin in 1997 and will continue through FY 1998 as it links up with water and biodiversity projects undertaken by USAID and the World Bank.

#### **IR 3.3.5 Increased participation in international markets and other international fora**

This will require approximately \$.4 million in FY 1998. The funds will provide U.S. technical expertise to identify and address opportunities and constraints relevant to Ukraine's competitive participation in international markets. Particular attention will be given to the practical application of ISO 14000 (international standards affecting production processes) in Ukraine, as well as eco-labeling. International standards, regulations, agreements, and protocols will also be reviewed and assessed in the context of Ukraine's capacity to comply.

#### **Consequences of a 20% Reduction**

A reduction of this magnitude would mean that roll-out plans for models would be curtailed and would therefore have a lesser impact. Leverage with the World Bank and the EBRD on infrastructure funding as well as on environmentally sound small business development would be decreased. Fewer lessons would be learned from enterprise pilots in energy efficiency and waste minimization.

## B. Program Management Requirements: Operating Expenses and Staffing

The Mission is aware of the OE budget crisis facing the Agency, and we understand that reductions in staffing levels worldwide are likely. Given the size of the program for the three countries covered by the regional mission in Kiev, and the likelihood that those levels will not decline precipitously over the next few years, we want to re-emphasize that the staffing level for USAID/Kiev must be maintained in order for the Agency to achieve its objectives.

The USAID program in Ukraine is now the Agency's third largest, and the Mission also provides oversight and management for activities in Moldova and Belarus. USAID is the major donor supporting the reform efforts of the Kuchma government. We are in the unique position of providing critically important advice and support to the key Government of Ukraine reformers at the very moment when the political and economic future of Ukraine is being decided.

USAID/Kiev has analyzed our future OE requirements based upon staffing levels (127 positions) approved by the NIS bureau in FY-95. For the Mission to accomplish the U.S. Government's short and long term objectives in Ukraine it is imperative that the Mission maintain its staffing at this level. That means that when vacancies occur the Mission must be able to quickly fill the slots so that there are not critical gaps in program coverage.

### Budget Summary FY 1997/FY 1998

|                    |              | FY-97          | FY-98          |
|--------------------|--------------|----------------|----------------|
| US Direct Hire     | U100         | 482.7          | 553.3          |
| FN Direct Hire     | U200         | 0.0            | 0.0            |
| Contract Personnel | U300         | 1,325.6        | 1,520.1        |
| Housing            | U400         | 534.8          | 532.4          |
| Office Operations  | U500         | 1,723.4        | 1,729.1        |
| NXP Procurement    | U600         | 448.1          | 555.4          |
|                    | <b>TOTAL</b> | <b>4,514.6</b> | <b>4,890.3</b> |

## **Part IV. Status of Management Contract Special Concerns or Issues**

### **I. Managing the Multiple Constituencies for the Ukraine Program**

A central feature of USAID's assistance to Ukraine is the significant interest of the US Congress and various US organizations and individuals in becoming involved in the program. The Mission, as well as the ENI Bureau and the office of the State Department Coordinator, deal continuously with questions, requests, proposals and directives concerning activities that are receiving support or that the requestor feels should receive support under the USAID program. This level of attention and support for the program, if managed well, can be a positive factor in making sure that Ukraine's economic and political transitions are successful. On the other hand, if significant resources are allocated for activities outside the agreed upon strategic reform objectives, then the key goals of U.S. foreign policy in the country can be jeopardized. This balance is delicate and often difficult, but absolutely critical to the success of the Ukraine assistance program.

### **II. Mission Staffing**

The Mission's staffing pattern includes the number of personnel with the skills required to carry out the Mission's responsibilities for planning, documenting and implementing USAID's program in Ukraine. USAID is now subject to budgetary pressures agency-wide that make it difficult to maintain these staffing levels. If the agency is unable to maintain the full complement of staff now approved for Ukraine, our ability to achieve the objectives of the program will be lessened.

### **III. Timely Availability of Funds**

The next two to three years will be critical to the process of economic and democratic reform in Ukraine. US support for reformers must be constant, and we must be able to provide funds quickly when they are needed to support opportunities as they arise in the country. The achievement of our objectives would be significantly impaired by a hiatus in the flow of funds.

**Part V. Special Issues**  
**A. Environmental Issues**

There are no issues related to the implementation of Initial Environmental Examinations or Environmental Assessments.

## **B. The Impact of Gender - Women in Development**

Fully successful implementation of democratic and economic reforms relies on equality of women's access to and participation in economic, political, and social organizations which promote or benefit from such reforms. USAID/Kiev therefore considers issues of gender participation in the design process as well as in implementation. One activity is being designed with women as the primary customer (Winrock extension). In other activities, women are actively encouraged to participate. Tracking of women's involvement and the impact of activities on women's status or welfare, however, has been difficult. The use of the results framework for improved performance monitoring will help in this regard.

### **Status of Women in Ukraine**

Ukraine is still far from offering women the same opportunities as men. The draft constitution does not specifically afford men and women equal rights. While the draft constitution and legislation in force comply with Articles 2 and 3 of the UN Committee on Elimination of Discrimination Against Women (CEDAW), providing some de jure equality, de facto equality does not exist. In fact, the situation for women in Ukraine continues to deteriorate.

The majority of the Ukrainian population consists of women (53.6%). Thirty percent of women are over 55 as compared to 14% of men over the retirement age of 60 (World Bank, 1992 in Genesys # 10). Two-thirds of women live in cities. In 1990, women made up 52% of the work force. Women outnumber men in the category of employed specialists with university or college education (61%). However, women are under-represented in the upper echelons of administrative and managerial posts, as well as in academic and scientific positions. Although Ukraine has ratified the International Labor Organization's Convention 100 on equal pay for equal work, pay equity for women is still elusive. As of 1992, women headed only five percent of Ukrainian enterprises. Women are only 8.8% of top managers but 82.3% of educators. Furthermore, wages for women educators are only 72% of the average wage. As in other countries of the NIS, educated women in urban areas are usually found in low-paid white collar employment.

Although jobs in the private sector are more highly paid, opportunities for women are limited despite their potential. Positions are frequently still segregated as "female" or "male" jobs. Women are the waitresses, secretaries, interpreters, accountants, and low-level managers. Job advertisements often specifically request only men for managerial positions. Women over 40 can be turned down because of their age.

Ukraine is not subject to 8 out of 14 conventions of the International Labor Organization set for work in dangerous and harmful conditions. Laws protecting women and prohibiting them from dangerous work and night shifts were never implemented. 37.5 percent of women are engaged in heavy physical labor. Some 750,000 to over a million women work in conditions extremely dangerous to their health. It is reported that every third woman in industry works

nights. For hard physical labor women receive wages from 25-30 percent less than the average (Pavlychko, 1992, p.83).

Most women working at state-owned enterprises express concern about losing their jobs. Women are the first to lose their jobs in all sectors. They make up 70% of the unemployed and approximately 90% of the newly unemployed (Ukraine Human Rights Practices, 1995, Dept. of State). Furthermore, women frequently do not know their rights and privileges with regard to unemployment compensation, or they do not know how to make effective use of these rights.

Studies indicate that domestic violence is pervasive. A poll of 600 women in Kharkiv indicated that 10 - 15% had been raped and 25% had been subjected to physical abuse. A survey of university women in Crimea showed that 90% had experienced or were concerned about the possibility of rape in university dormitories. There is low official incidence of reported crime against women. Authorities exert pressure on women to drop charges against their husbands to preserve the family. There is little media attention on this issue (Ukraine Human Rights Practices, 1995, Dept. of State).

Since independence, women's representation in governmental authorities, particularly elective ones, has been reduced as has their influence on policy making and implementation. Until 1990, women made up a stable 50% in local Radas of People's Deputies and one third in the Supreme Rada of Ukraine. This fell to 7% in 1992, and to 4% in the free elections of 1994, when 17 out of 405 elected deputies were women.

Although women make up the majority of employees in the central government administration, they are poorly represented in the diplomatic corps, international organizations and at the highest levels of government. As of 1994, there were no women ambassadors and only 12.4% of diplomats are women. There were no women representing Ukraine at the UN Secretariat in New York or in secretariat positions at the international organizations in Geneva. There were no women on the staff of the Presidium of the Supreme Rada of Ukraine or the Cabinet of Ministers of Ukraine. There were no women ministers of Ukraine. However, two women head governmental executive structures with the authority of ministers. More than 10 women serve as deputy ministers and heads of the state committees, including the deputy ministers of labor, public health, justice, social protection of population, statistics and deputy heads of state committees of light and textile industry, hydrometeorology, food industry, and standardization.

The Committee for Affairs of Women, Maternity and Childhood, established under the President of Ukraine, is headed by a woman. It is the only government body concerned with women's issues and is made up of government-appointed women who are perceived to share the pro-natalist orientation of the government. With mortality exceeding the birth-rate in Ukraine there are increasing calls for more strict anti-abortion measures. The abortion rate was 61.9% in 1988. However, this committee has to date played a limited role in advising on draft legislation affecting women.

Fortunately, NGOs involving women and women's issues are beginning to grow dynamically. In 1994 there were 70 women's NGOs in Ukraine. By 1996 there are about 100. Half of the number of NGOs registered in a data base maintained by the USAID grantee Counterpart Foundation are run by women. In 1995, a major women's conference sponsored by the Counterpart Foundation in cooperation with the Union of Ukrainian Women (Soyuz Ukrainok) was held in Lviv, attended by a wide spectrum of women's advocacy activists, NGOs, lawyers, and government officials. Last year, parallel meetings were also held, chaired by each of the other two national women's organizations, Zhenocha Gramada (Association of Ukrainian Women) in Kiev, and Soyuz Zhenshchin Ukrainy (Union of Female Ukrainians) in Odessa. However, there has been limited working group follow-up utilizing democratic interactive techniques flowing from these meetings to date.

### **Activities to Improve the Status and Welfare of Women**

USAID/Kiev is pursuing a number of avenues to address the problems outlined above:

#### *NIS US Women's Consortium*

The US-NIS Women's Consortium, funded through an ENI Bureau grant to Winrock Foundation, focuses on participatory decision-making, women's rights, and leadership training. The Consortium, which is active in Russia and Ukraine, has also made mini-grants to launch grassroots women's organizations such as the Kyiv Women's Legal Center and the Kyiv Women's Crisis Center. The Kyiv Women's Crisis Center was written up on the front page of the Kiev Post a few months ago. The grant expired May 31, but we anticipate renewing it in response to an unsolicited proposal from Winrock for a continuation of similar activities in WNIS.

The following highlight some US-NIS Women's Consortium accomplishments:

- Consortium teaches hands-on democracy techniques: The US League of Women Voters brought some 10 Ukrainian women to the US and placed them with local Leagues across the US where they learned first hand how lobbying and NGO management function in a rule of law setting. The US League of Women Voters is itself a member of the NIS-US Women's Consortium.
- Ukrainian members of 6 grassroots women's organizations (the Kharkiv Gender Center, the Kharkiv Women's Fund, the Lyubystok Women's Club, the Women's Information-Consultation Center of Kyiv, the Kyiv Women's Legal Center, and the Women's Crisis Center of Kyiv) have received support and development assistance from the Consortium and have been successful in moving toward sustainability. They have all received grants from the Euraisa and International Renaissance (Soros) Foundations.
- Through various forms of technical assistance, the Consortium has improved the management and networking skills of women's NGO's. Four Ukrainian grassroots

women's organizations (Horlitsa Club, Kherson Women's Fund, Lyubystok Women's club, and Women's Information Center of Dnepropetrovsk) with support and guidance from the Consortium, have succeeded in registering as official NGOs. Their offices serve as unique resource centers distributing UN materials, books, brochures and other printed information in English, Russian and Ukrainian that are largely inaccessible in the NIS.

- The Kyiv office of the Consortium itself has obtained official Ukrainian NGO status. This permits it to apply for and receive grants directly, greatly enhancing the sustainability of women's activities in Ukraine.

### *Training*

USAID/Kiev has made a concerted effort in its management of the NIS Exchanges and Training Program (NET) to ensure that women are given equal access to training opportunities. Since the program began in 1993, NET has sent 300 women to the US. This represented only about 25% of participants. However, in 1996, teams such as the Agricultural Development and Management Course, and the Training of Trainers for NGO Management have had 50% or more women's participation. The USAID Administrator's 1996 Gender Plan of Action has been translated into Ukrainian and widely disseminated to USAID/Kiev grantees, who in turn are changing their implementation policies as a result. A recent NET project evaluation shows that women find the training experience more positive than men, and are more likely to be expected to return with new ideas for the workplace. Women returnees appear to have received more increases in job responsibilities upon return from NET training. The NET target for women's participation is 50%.

### *Reproductive Health*

The Women's Reproductive Health Initiative is USAID's response to the human and financial costs resulting from poor maternal and child health in Ukraine. The goals of the program are to improve the quality of reproductive health services for women; and to improve access to reproductive health services.

Activities are taking place in the following areas: establishment of model reproductive health sites; improved reproductive health service delivery; sustainable reproductive health training; increased public awareness; and increased contraceptive sustainability.

Accomplishments to date are quite encouraging. Demonstration sites have been established in L'viv, Donetsk and Odessa. Oral contraceptive use has increased from 3% to 10% in Donetsk Oblast. In January 1996, the Ministry of Health issued a decree promoting rooming-in and breastfeeding. Two hospitals in Donetsk now offer 100% rooming-in to postpartum women and newborns. Post-partum hospital stays have been reduced by 40% for normal deliveries without complications and 50% for cesarian sections without complications. At the model site in Donetsk, reproductive health training has been institutionalized into medical residency training and roll-out training has expanded throughout the Donetsk oblast.

Objectives for FY '96 and '97 are to expand to additional model sites, roll-out sustainable reproductive health training, and increase collaboration with newly formed indigenous NGOs.

Agencies cooperating with USAID in the reproductive health initiative are:

- Access to Voluntary and Safe Contraception International
- Johns Hopkins Programs for International Education in Reproductive Health
- Johns Hopkins University/Population Communications Services
- Institute for Reproductive Health/Georgetown University
- The Futures Group International
- John Snow Incorporated/MotherCare (contract)
- Centers for Disease Control

#### *Other NGO Support*

Many NGO's that are headed by or substantially benefit women have received training under the Counterpart Service Center grant to learn how to make their NGOs more effective. In addition, many activities that include a women's focus have received funding under Eurasia Foundation's small grants program.

#### *Agriculture*

The Citizen Network for Foreign Affairs/Enterprise & Leadership Initiative is active in women's issues under the Food Systems Restructuring Project. CNFA receives USAID funding for agribusiness development, and has directed a portion of those funds to develop a database of some 100 women leaders in agriculture in Ukraine and has connected them into a network. Following recent training in the USA, many of these women are poised now to play a role in Ukraine's upcoming agricultural policy decisions. In the summer of 1995, a group of about 10 women went to the U.S. on a community canning training team entitled Women in Agriculture. They learned small business entrepreneurship at Land O Lakes, Minnesota. CNFA is working with private US agricultural groups to help these women start their own businesses.

## C. New Partnership Initiative

The goal of the New Partnership Initiative (NPI) is to stimulate lasting economic, social and political development by building local institutional capacity in non-governmental organizations (NGOs), competitive small businesses, and democratic local governments. This is to be accomplished by strengthening grassroots capacity as well as by improving the national enabling environment in which private and community action can flourish. Partnerships between U.S. NGOs and local institutions are encouraged to support current development efforts, long-term cooperation and self-sufficiency of local organizations.

The USAID program in Ukraine contains a great many activities that fall within the scope of the NPI. A number of examples are briefly described below.

### *NGO Strengthening*

- USAID is promoting the active participation of citizens in political and economic decision-making through training and small grants to civic action groups, public policy NGOs, political parties, and democratic free trade unions. Their activities include investigating human rights violations, conducting regular and well-publicized opinion polls, lobbying on behalf of citizen interests, publishing a public policy journal and producing a popular political TV program. Women's NGOs are being fostered to address key issues such as domestic violence, legal inequality and women's entrepreneurship. The U.S./Ukraine Executive Council on Sustainable Development has been established to integrate economic and environmental decision-making. Environmental groups and trade union members have won several legal challenges, including a case in which the courts ordered an enterprise to reinstate and compensate the chairman of an independent trade union who had been fired for his union activities.
- To bolster Ukraine's failing social safety net, USAID is working to build up the capacity of NGOs that provide social services to at-risk groups. The USAID-supported NGO Service Center provides a broad range of services to the local NGO community, including training, technical assistance and seed grants. More than 200 NGOs have received grants and over 1,300 NGO leaders have been trained, substantially strengthening the capacity of the NGOs to meet critical social needs.
- A network of twenty-six Press Clubs has been developed throughout Ukraine where journalists can meet on a weekly or biweekly basis with officials from the GOU to discuss different issues. Weekly meetings at the Kiev Press Club are shown nationally during the main TV news program. Ukrainian independent TV stations are in the process of forming the country's first independent television network.
- USAID is assisting citizens throughout Ukraine in the formation of homeowner condominium associations. Implementation of this effort is now being transferred to

local trade associations, public interest groups and training institutes.

- USAID is working to strengthen the Ukraine Legal Foundation, the leading Ukrainian legal reform NGO. The establishment of a Ukrainian Law Student Association and Law Student Journal is underway.
- USAID has been instrumental in supporting the development and strengthening of a number of self-regulatory organizations. An Association of Investment Businesses has been established, uniting 140 investment funds and trust companies and actively enforcing a professional code of conduct. A self-regulatory organization has been established to govern the Over-the-Counter trading system. An independent national electricity regulatory commission, the first of its kind in the region, has been created to oversee fair competition among the newly created joint stock electricity companies and to ensure reasonable tariffs to customers and producers. Consumer Councils are planned for all 25 oblasts in Ukraine to ensure consumer rights protection.
- A National Center for Training Bank Personnel is helping to develop and strengthen the skills of professional bankers. The Center is on its way to becoming self-sustaining and is adding new courses to address priority requirements.

#### *Small Business Strengthening*

- USAID is facilitating small-scale enterprise privatization, the transfer of a locality's retail trade sector into private hands. To date, USAID has supported the privatization of approximately 16,000 small companies.
- USAID has established a number of regional business service centers which are providing training and advisory services directly to current and prospective entrepreneurs. These centers also offer access to information and data for improved planning and decision making, and are developing local advocacy groups that lobby the municipal government to enact laws, policies and regulations that provide a better enabling environment for business.
- USAID-sponsored agribusiness partnerships between U.S. firms and Ukrainian farms provide a full range of agricultural inputs as alternatives to the state structure and allow farmers to deal with distribution and inputs on a commercial basis. The centers also provide training on farm practices, new crop technologies and improving efficiency and productivity. Already over 4,000 farmers have been trained at one facility.
- USAID is providing advice at the national level on laws and policies that facilitate the development of private real estate markets.
- USAID is assisting in developing legislation that will create the legal and regulatory framework for land privatization and land market creation. We are also assisting in

making operational a land titling and registration system throughout Ukraine.

- USAID is providing assistance to improve overall tax law, policy and administration, which will result in the fair and efficient administration of simplified and consistent tax laws.
- USAID is assisting the Antimonopoly Committee (AMC) in drafting antitrust legislation and procedural and administrative laws and regulations which will eliminate some barriers to establishing and maintaining businesses;

#### *Democratic Local Government Strengthening*

- Senior level U.S. resident advisors have worked with the mayors of Lviv, Kharkiv and Ternopil since 1994 to increase and improve the knowledge of Ukrainian staff in municipal administration and municipal financial management. One result is that more public hearings are being conducted by government officials at the municipal level, making information available about local budgets and other municipal issues. In the city of Ternopil, an Economic Development Office was established and instituted as a structural subcommittee in the city's administration. The bus system is generating profits for the first time, following USAID-funded refurbishment and local management and repair capacity enhancement. In Kharkiv, the municipal budget was printed in the local newspaper. The city began issuing municipal bonds in December 1995, raising over \$400,000 for the city to purchase mini-buses and improve the heating system. In Lviv, about \$50,000 will be saved by the city each year in phone charges due to the operation of the city phone branch exchange system. The Lviv water authority doubled salaries and established a billing department to increase billings and collections. In Donetsk, an oblast office was established to deal specifically with solid waste. The Ukraine Association of Cities has been active in lobbying on behalf of cities, especially with regard to the sections of the draft constitution pertaining to local government and the new local government legislation being considered by Parliament.
- Health care finance and service delivery reform is focused at local level structures, including intensive demonstration sites in Lviv and Odessa, where USAID is working to reduce the cost of health care by supporting reorientation of health care delivery away from long hospital stays and toward clinic visits and by introducing market incentives.
- Local politicians are being trained so that they are aware of the need to respond to constituents' problems and learn techniques for doing so.
- A National Tax Training Center has been created, and a significant portion of the 50,000 tax collectors throughout Ukraine are trained in more efficient techniques of tax administration and enforcement.

- **USAID is assisting local officials in the privatization of housing ownership, management and maintenance in 16 localities.**
- **In supporting the certificate privatization program, USAID has trained government officials across Ukraine in the operation of auction centers and bid collection centers to ensure that the privatization process is carried out in the quickest and most transparent way, providing an opportunity to every citizen of Ukraine to participate in the process of transferring state-owned assets into private hands.**
- **Three utility partnerships have been established between Ukrainian and U.S. utilities to carry out exchanges, seminars, workshops, internships, and study tours on finance, plant safety, human resource development, customer service, privatization, regulation and safety.**

## **Part VI. Tables and Charts**

**Agency Table 1**  
**ALL RESOURCES TABLE**  
**USAID/Ukraine**  
**(\$000)**

| Funding Category   | FY 1996*       | FY 1997**      | FY 1998        |                |
|--|----------------|----------------|----------------|----------------|
|  |                |                | Base***        | Base - 20%     |
| <b>FSA</b>   |                |                |                |                |
| <b>Economic Growth</b>                                   | <b>114,867</b> | <b>89,000</b>  | <b>71,500</b>  | <b>57,200</b>  |
| Of which: Field Support<br>(INCLUDES ENI SOS 1.1 TO 1.5) |                |                |                |                |
| <b>Population/Health</b>                                 | <b>5,833</b>   | <b>10,000</b>  | <b>7,300</b>   | <b>5,840</b>   |
| Of which: Field Support<br>(INCLUDES ENI SO 3.2)         |                |                |                |                |
| <b>Environment</b>                                       | <b>5,000</b>   | <b>6,000</b>   | <b>4,600</b>   | <b>3,680</b>   |
| Of which: Field Support<br>(INCLUDES ENI SO 3.3)         |                |                |                |                |
| <b>Democracy</b>   | <b>12,300</b>  | <b>17,500</b>  | <b>12,800</b>  | <b>10,240</b>  |
| Of which: Field Support<br>(INCLUDES ENI SOS 2.1 to 2.3) |                |                |                |                |
| <b>Humanitarian Assistance/Transition</b>                | <b>4,700</b>   | <b>8,000</b>   | <b>4,700</b>   | <b>3,760</b>   |
| Of which: Field Support<br>(INCLUDES ENI SOS 3.1)        |                |                |                |                |
| <b>Special Initiatives/Crosscutting Programs</b>         | <b>67,700</b>  | <b>31,500</b>  | <b>29,100</b>  | <b>23,280</b>  |
| <b>Performance Funds</b>                                 | <b>14,550</b>  | <b>20,000</b>  | <b>20,000</b>  | <b>16,000</b>  |
| <b>Parking Fines</b>                                     | <b>50</b>      | <b>1,000</b>   | <b>-</b>       | <b>-</b>       |
| <b>GRAND TOTAL</b>                                       | <b>225,000</b> | <b>183,000</b> | <b>150,000</b> | <b>120,000</b> |

\* For FY 1996 operating bureau budget allocations based on the FY 1996 Appropriations Act have been used.

\*\* For FY 1997 operating bureau allocations based on the FY 1997 OMB passback level have been used.

\*\*\* Base is defined as operating bureau allocations based on the FY 1997 passback level.

**Annex 3  
GLOBAL FIELD SUPPORT**

| Mission:<br>Strategic<br>Objective              | Field Support:<br>Activity<br>Number & Title | Priority *  | Duration             | Estimated Funding (\$000) |                |                     |                |                                 |                |                                 |                |
|---|--|-------------|----------------------|---------------------------|----------------|---------------------|----------------|---------------------------------|----------------|---------------------------------|----------------|
|   |  |             |                      | FY 1996**                 |                | FY 1997***          |                | FY 1998                         |                |                                 |                |
|   |  |             |                      | Obligated by *****:       |                | Obligated by *****: |                | Base****<br>Obligated by *****: |                | Base-20%<br>Obligated by *****: |                |
|   |  |             |                      | Global Bureau             | Operating Unit | Global Bureau       | Operating Unit | Global Bureau                   | Operating Unit | Global Bureau                   | Operating Unit |
| S.O.1:<br>Enhanced<br>Economic<br>Participation | 935-3051 Contraceptive Social Marketing      | Medium-high | 3 years<br>(1996-98) | 20                        | —              | 30                  | —              | 20                              | —              | 40                              | —              |
|   |  |             |                      |                           |                |                     |                |                                 |                |                                 |                |
|   |  |             |                      |                           |                |                     |                |                                 |                |                                 |                |
|   |  |             |                      |                           |                |                     |                |                                 |                |                                 |                |
|   |  |             |                      |                           |                |                     |                |                                 |                |                                 |                |
|   |  |             |                      |                           |                |                     |                |                                 |                |                                 |                |
|   |  |             |                      |                           |                |                     |                |                                 |                |                                 |                |
|   |  |             |                      |                           |                |                     |                |                                 |                |                                 |                |
|   |  |             |                      |                           |                |                     |                |                                 |                |                                 |                |
|   |  |             |                      |                           |                |                     |                |                                 |                |                                 |                |
| <b>GRAND TOTAL.....</b>                         |  |             |                      | 20                        | —              | 30                  | —              | 20                              | —              | 40                              | —              |

\* For Priorities use high, medium-high, medium, medium-low, low  
 \*\* For FY 1996, use operating bureau budget allocations based on the FY 1996 Appropriations Act, In the case of PL480, use appropriations from the Agriculture Appropriations Act.  
 \*\*\* For FY 1997, use operating bureau allocations based on the FY 1997 OMB passback level.  
 \*\*\*\* Base is defined as operating bureau allocations based on the FY 1997 passback level.  
 \*\*\*\*\* If the funding source is unknown, show all the funding as Obligated by Global Bureau.

148

Mission Table 1.

Ukraine

Resource Request By Project, FY 95 - FY 98  
(Thousands of Dollars)

| Project No.     | PROJECT COMPONENTS                                  | FY 95  | FY 95<br>carryover | FY 96  | FY 97  | FY 98 | FY 98<br>-20% |
|-----------------|---|--------|--------------------|--------|--------|-------|---------------|
| <b>110-0001</b> | <b>Special Initiatives</b>                          |        |                    |        |        |       |               |
|                 | 1.1.0 EMERGENCY HUMANITARIAN ASSISTANCE             | 0      |                    |        | 1,000  | 1,000 | 800           |
|                 | 1.4 Pharmaceuticals, Vaccines Supply                |        |                    |        |        |       |               |
|                 | 1.8 Humanitarian Transport (632a)                   |        |                    |        |        |       |               |
|                 | 1.2.0 TECH SUPPORT / PROG DEV. SUPPORT              | 500    |                    | 500    | 1,000  | 1,000 | 800           |
|                 | 2.2 Tech. Support & PD&S                            | 500    |                    | 500    | 1,000  | 1,000 | 800           |
|                 | 1.3.0 CROSS-SECTORAL PILOT PROGRAMS                 |        |                    |        |        |       |               |
|                 | Sub-Total   | 500    |                    | 500    | 2,000  | 2,000 | 1,600         |
| <b>110-0002</b> | <b>Energy</b>                                       |        |                    |        |        |       |               |
|                 | 2.1 Pricing and National Policy                     | 338    |                    |        |        |       |               |
|                 | 2.2 District Heating & Energy Efficiency            | 2,000  |                    |        |        |       |               |
|                 | 2.3 Energy Subsector Restructuring                  | 75,349 |                    |        |        |       |               |
|                 | 3.2 Privatization and Restructuring                 | 3,349  | 500                | 6,700  | 10,700 | 8,000 | 6,400         |
|                 | 3.3 Ukraine Sector Grant                            | 72,000 |                    |        |        |       |               |
|                 | 2.4 Nuclear Safety (EBRD Part)                      | 2,100  |                    |        |        |       |               |
|                 | 2.6 Program Design and Management                   | 336    |                    | 300    | 300    | 400   | 320           |
|                 | Sub-Total   | 80,121 | 500                | 7,000  | 11,000 | 8,400 | 6,720         |
| <b>110-0003</b> | <b>Environment</b>                                  |        |                    |        |        |       |               |
|                 | 3.1 Environmental Policy & Institution Building     | 525    |                    | 600    | 1,000  | 600   | 500           |
|                 | 1.3 Credit Facility Environmental Activity          | 1,697  |                    |        |        |       |               |
|                 | 1.4 Tech Coop for Environmental Improvement         | 629    |                    | 900    | 1,200  | 700   | 600           |
|                 | 3.2 Health Risks                                    | 863    |                    | 2,000  | 2,000  | 2,000 | 1,680         |
|                 | 3.3 Public Awareness & Environmental Accountability | 400    | 300                | 400    | 600    | 400   | 200           |
|                 | 3.5 Natural Resource Management & Biodiversity      | 900    |                    | 600    | 500    | 400   | 300           |
|                 | 3.6 Program Design and Management                   | 388    | 19                 | 500    | 700    | 500   | 400           |
|                 | Sub-Total   | 5,402  | 319                | 6,000  | 6,000  | 4,600 | 3,680         |
| <b>110-0004</b> | <b>Health Care</b>                                  |        |                    |        |        |       |               |
|                 | 4.1 Medical Partnerships                            | 2,000  |                    | 6,000  | 1,000  | 1,000 | 1,000         |
|                 | 4.2 Vaccines & Pharmaceutical Security              |        |                    | 500    | 1,500  | 500   | 480           |
|                 | 4.3 Health Monitoring                               | 0      |                    |        |        | 700   | 500           |
|                 | 4.4 Finance and Service Delivery Alternatives       | 2,000  |                    | 1,650  | 2,500  | 1,500 | 1,000         |
|                 | 4.5 Women's Health/Family Planning                  | 2,987  |                    | 5,200  | 0      |       |               |
|                 | 4.6 Program Design and Management                   |        |                    | 183    | 500    | 400   | 300           |
|                 | Sub-Total   | 6,987  |                    | 13,633 | 6,500  | 4,100 | 3,280         |

| UKRAINE<br>Project No. | PROJECT COMPONENTS                                | FY 95         | FY 95<br>carryover | FY 96         | FY 97         | FY 98         | FY 98<br>-20% |
|------------------------|---|---------------|--------------------|---------------|---------------|---------------|---------------|
| <b>110-0005</b>        | <b>Private Sector</b>                             |               |                    |               |               |               |               |
|                        | 5.1. Privatization                                | 13,042        |                    | 5,565         | 6,000         | 4,000         | 3,000         |
|                        | 5.2. Land Markets                                 | 25            |                    | 3,000         | 5,000         | 5,000         | 3,750         |
|                        | 5.3. Capital Markets                              | 2,869         |                    | 5,000         | 5,000         | 4,000         | 3,000         |
|                        | 5.4. Public Education for Free Market             | 6,624         | 500                | 4,500         | 4,300         | 1,000         | 1,000         |
|                        | 5.5. Post-Privatization Assistance to Enterprises | 0             |                    | 1,385         | 4,000         | 5,000         | 3,750         |
|                        | 5.6. Policy, Legal and Regulatory Reform          |               |                    | 1,000         | 700           |               |               |
|                        | 5.7. Small and New Business                       |               |                    | 2,000         | 4,000         | 3,000         | 3,000         |
|                        | 5.9. Program Design and Management                |               |                    | 1,000         | 1,000         | 1,000         | 900           |
|                        | <b>Sub-Total</b>                                  | <b>22,560</b> | <b>500</b>         | <b>23,450</b> | <b>30,000</b> | <b>23,000</b> | <b>18,400</b> |
| <b>110-0006</b>        | <b>Food Systems</b>                               |               |                    |               |               |               |               |
|                        | 6.1. Storage System                               |               |                    |               |               |               |               |
|                        | 6.2. Marketing Efficiency                         |               |                    | 1,500         | 1,000         | 1,000         |               |
|                        | 6.3. Agribusiness Partnerships                    |               |                    | 5,250         | 13,750        | 10,250        | 8,950         |
|                        | 6.5. Program Design and Management                |               |                    | 250           | 250           | 250           | 250           |
|                        | <b>Sub-Total</b>                                  | <b>0</b>      |                    | <b>7,000</b>  | <b>16,000</b> | <b>11,500</b> | <b>9,200</b>  |
| <b>110-0007</b>        | <b>Democratic Reform</b>                          |               |                    |               |               |               |               |
|                        | 7.1. Political Process                            | 2,100         |                    | 1,800         | 3,000         | 3,000         | 2,400         |
|                        | 7.2. Rule of Law                                  | 3,100         |                    |               |               |               |               |
|                        | 2.1 Rule of Law                                   | 1,600         |                    | 4,900         | 5,000         | 4,000         | 3,200         |
|                        | 2.2 Law Enforcement                               | 1,500         |                    |               |               |               |               |
|                        | 7.3. Public Administration / Local Government     | 2,000         |                    | 2,000         | 5,000         | 2,500         | 2,000         |
|                        | 7.4.1. Civil Society (PVO/NGO)                    | 300           |                    | 300           | 1,300         | 1,000         | 800           |
|                        | 7.4.2. NGO/PVO Network                            |               |                    | 1,200         | 2,500         | 2,500         | 2,000         |
|                        | 7.5. Independent Media                            | 800           |                    | 2,800         | 2,500         | 1,600         | 1,240         |
|                        | 7.6. Program Design and Management                | 500           |                    | 500           | 700           | 700           | 600           |
|                        | <b>Sub-Total</b>                                  | <b>8,800</b>  |                    | <b>13,500</b> | <b>20,000</b> | <b>15,300</b> | <b>12,240</b> |
| <b>110-0008</b>        | <b>Housing</b>                                    |               |                    |               |               |               |               |
|                        | 8.1. Market-based Housing Sector                  | 3,694         |                    | 1,134         |               |               |               |
|                        | 8.3. Program Design and Management                | 306           |                    | 213           |               |               |               |
|                        | <b>Sub-Total</b>                                  | <b>4,000</b>  |                    | <b>1,347</b>  | <b>0</b>      | <b>0</b>      | <b>0</b>      |
| <b>110-0009</b>        | <b>Economic Restructuring</b>                     |               |                    |               |               |               |               |
|                        | 9.1. Fiscal Reform:                               | 745           |                    | 3,500         | 5,800         | 4,200         | 3,360         |
|                        | 1.1. Fiscal Activities                            | 325           |                    | 1,400         | 4,300         | 3,000         | 2,360         |
|                        | 1.2. Treasury                                     | 420           |                    | 2,100         | 1,500         | 1,200         | 1,000         |
|                        | 9.2. Financial Sector Reform:                     | 19,805        |                    | 4,800         | 5,700         | 4,500         | 3,600         |
|                        | 2.1. Financial Sector TA/Monetary                 | 800           |                    | 2,200         | 3,600         | 2,750         | 2,250         |
|                        | 2.2. Financial Sector Training                    | 2,400         |                    | 2,200         | 1,500         | 1,000         | 750           |
|                        | 2.3. Financial/Monetary System (FSVC)             |               |                    | 400           | 600           | 750           | 600           |
|                        | 2.4. Ukraine Trade Credit (Ex-Im)                 | 16,605        |                    |               |               |               |               |
|                        | 9.3. Market Environment                           | 1,600         |                    | 7,970         | 12,700        | 9,500         | 7,600         |
|                        | 3.1. Market Environment (SO 1.3)                  | 800           |                    | 2,970         | 4,200         | 3,100         | 2,500         |
|                        | 3.1. Market Environment (SO 1.4)                  |               |                    | 1,000         | 1,500         | 1,000         | 800           |
|                        | 3.1. Market Environment - Social Sector Restr.    | 800           |                    | 4,000         | 7,000         | 5,400         | 4,300         |
|                        | 9.4. Program Design and Management                | 631           |                    | 800           | 800           | 800           | 640           |
|                        | 9.4. Program Design and Management (SO 1.2)       |               |                    | 250           | 250           | 250           | 200           |
|                        | 9.4. Program Design and Management (SO 1.4)       |               |                    | 250           | 250           | 250           | 200           |
|                        | 9.4. Program Design and Management (SO 1.3)       |               |                    | 300           | 300           | 300           | 240           |
|                        | <b>Sub-Total</b>                                  | <b>22,781</b> |                    | <b>17,070</b> | <b>26,000</b> | <b>19,000</b> | <b>15,200</b> |

| UKRAINE<br>Project No. | PROJECT COMPONENTS                      | FY 95   | FY 96<br>carryover | FY 96   | FY 97   | FY 98   | FY 98<br>-20% |
|------------------------|---|---------|--------------------|---------|---------|---------|---------------|
| 110-0010               | <b>Eurasia Foundation</b>               |         |                    |         |         |         |               |
|                        | Sub-Total                               | 0       |                    | 3,500   | 3,500   | 3,500   | 2,800         |
| 110-0011               | 11.1 W/NIS Enterprise Fund              |         |                    | 15,000  | 15,000  | 15,000  | 12,000        |
|                        | Sub-Total                               | 0       |                    | 15,000  | 15,000  | 15,000  | 12,000        |
| 110-0012               | <b>Exchanges &amp; Training</b>         |         |                    |         |         |         |               |
|                        | 12.1 Participant Training               | 5,905   |                    | 4,800   | 6,000   | 4,600   | 3,680         |
|                        | Sub-Total                               | 5,905   |                    | 4,800   | 6,000   | 4,600   | 3,680         |
|                        | <b>All Project Total</b>                | 157,066 | 1,319              | 111,700 | 139,000 | 111,000 | 88,800        |
|                        | Performance Fund                        |         |                    | 14,560  | 20,000  | 20,000  | 16,000        |
|                        | <b>632(A) Transfers</b>                 |         |                    |         |         |         |               |
|                        | Nuclear Safety(NRC & studies)           |         | 1,900              | 2,000   | 2,000   |         |               |
|                        | Nuclear Safety (EBRD Part)              |         |                    | 10,000  |         |         |               |
|                        | Humanitarian Transport                  |         |                    | 3,000   | 3,000   |         |               |
|                        | Law Enforcement                         |         |                    | 3,000   | 3,000   |         |               |
|                        | Direct Trade and Investment - Commerce  | 838     |                    | 1,000   | 1,000   |         |               |
|                        | Training and Exchanges - USIA           | 9,250   |                    | 10,200  | 10,000  |         |               |
|                        | Volunteers - Peace Corps                | 1,800   |                    | 2,400   | 2,000   |         |               |
|                        | Nuclear Safety - DOE                    | 6,900   |                    | 15,400  |         |         |               |
|                        | Science Centers                         |         |                    |         |         |         |               |
|                        | GATT - Commerce                         |         |                    | 300     |         |         |               |
|                        | Warsaw Initiative : State               |         |                    | 3,400   | 2,000   |         |               |
|                        | Parking Fine Withholding                |         |                    | 50      | 1,000   |         |               |
|                        | CRS                                     |         |                    |         |         |         |               |
|                        | Rule of Law - CRS                       |         | 1,000              |         |         |         |               |
|                        | Sub-Total                               | 18,788  | 2,900              | 60,760  | 24,000  | 19,000  | 15,200        |
|                        | <b>Transfers to Other USAID Bureaus</b> |         |                    |         |         |         |               |
|                        | Farmer to Farmer - BHR                  |         |                    |         |         |         |               |
|                        | Pesticides - Global Bureau              | 196     |                    |         |         |         |               |
|                        | Training (TESS)- Global Bureau          | 25      |                    |         |         |         |               |
|                        | Sub-Total                               | 221     |                    |         |         |         |               |
|                        | Parking Fine Withholding                | 61      |                    |         |         |         |               |
|                        | Performance Funds Request               |         |                    |         |         |         |               |
|                        | Chernobyl Initiative                    |         |                    | 48,000  |         |         |               |
|                        | DOE Appropriation                       |         |                    |         |         |         |               |
|                        | <b>COUNTRY TOTAL</b>                    | 176,126 | 4,219              | 226,000 | 183,000 | 160,000 | 120,000       |

**Mission Table 2.**

**Ukraine**

**Resource Requests by Strategic Objective, FY 95- FY 98**

**STRATEGIC ASSISTANCE AREAS**  
(Thousands of Dollars)

|  | FY 95          | FY 95 carryover | FY 96          | FY 97          | FY 98          | FY 98 -20%     |
|--|----------------|-----------------|----------------|----------------|----------------|----------------|
| <b>STRATEGIC ASSISTANCE AREA 1:</b>      |                |                 |                |                |                |                |
| Economic Restructuring                   | 126,562        | 1,000           | 114,867        | 89,000         | 71,500         | 57,220         |
| <b>STRATEGIC ASSISTANCE AREA 2:</b>      |                |                 |                |                |                |                |
| Democratic Transition                    | 8,800          | 0               | 12,300         | 17,500         | 12,800         | 10,240         |
| <b>STRATEGIC ASSISTANCE AREA 3:</b>      |                |                 |                |                |                |                |
| Social Stabilization                     | 8,398          | 319             | 15,533         | 24,000         | 16,600         | 13,060         |
| <b>ASSISTANCE AREA 4:</b>                |                |                 |                |                |                |                |
| Special Initiatives/Crosscutting Program | 32,305         | 2,900           | 67,700         | 31,500         | 29,100         | 23,480         |
| Performance Fund                         | 0              |                 | 14,550         | 20,000         | 20,000         | 16,000         |
| <b>SAA, GRAND TOTAL</b>                  | <b>176,065</b> | <b>4,219</b>    | <b>224,950</b> | <b>182,000</b> | <b>150,000</b> | <b>120,000</b> |
| Parking Fine Withholding                 | 61             |                 | 50             | 1,000          |                |                |
| <b>Grand Total</b>                       | <b>176,126</b> | <b>4,219</b>    | <b>225,000</b> | <b>183,000</b> | <b>150,000</b> | <b>120,000</b> |

**Ukraine**

**Resource Requests by Strategic Objective, FY 95- FY 98**

**STRATEGIC ASSISTANCE AREAS**  
(SAA in Percent)

|  | FY 95         | FY 95 carryover | FY 96         | FY 97         | FY 98         | FY 98 -20%    |
|--|---------------|-----------------|---------------|---------------|---------------|---------------|
| <b>STRATEGIC ASSISTANCE AREA 1:</b>      |               |                 |               |               |               |               |
| Economic Restructuring                   | 71.9%         | 23.7%           | 51.1%         | 48.9%         | 47.7%         | 47.7%         |
| <b>STRATEGIC ASSISTANCE AREA 2:</b>      |               |                 |               |               |               |               |
| Democratic Transition                    | 5.0%          | 0.0%            | 5.5%          | 9.6%          | 8.5%          | 8.5%          |
| <b>STRATEGIC ASSISTANCE AREA 3:</b>      |               |                 |               |               |               |               |
| Social Stabilization                     | 4.8%          | 7.6%            | 6.9%          | 13.2%         | 11.1%         | 10.9%         |
| <b>ASSISTANCE AREA 4:</b>                |               |                 |               |               |               |               |
| Special Initiatives/Crosscutting Program | 18.3%         | 68.7%           | 30.1%         | 17.3%         | 19.4%         | 19.6%         |
| Performance Fund                         | 0.0%          | 0.0%            | 6.5%          | 11.0%         | 13.3%         | 13.3%         |
| <b>SAA, GRAND TOTAL</b>                  | <b>100.0%</b> | <b>100.0%</b>   | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> |

**STRATEGIC ASSISTANCE AREA 1: ECONOMIC RESTRUCTURING**

Foster the emergence of a competitive market oriented economy in which the majority of economic resources is privately owned and managed.

| STRATEGIC OBJECTIVE | FY 95 | FY 95<br>carryover | FY 96 | FY 97 | FY 98 | FY 98<br>-20% |
|---------------------|-------|--------------------|-------|-------|-------|---------------|
|---------------------|-------|--------------------|-------|-------|-------|---------------|

| 1.1 Increased Transfer of State-owned Assets to the Private Sector |        |     |        |        |        |       |
|--|--------|-----|--------|--------|--------|-------|
| 5.1 Privatization  | 13,042 |     | 5,565  | 6,000  | 4,000  | 3,000 |
| 6.2 Land Markets   | 25     |     | 3,000  | 5,000  | 5,000  | 3,750 |
| 5.4 Public Education for Free Market                               | 6,624  | 500 | 4,500  | 4,300  | 1,000  | 1,000 |
| 6.1 Market-based Housing Sector                                    | 3,694  |     | 1,134  |        |        |       |
| 6.3 Program Design and Management                                  | 306    |     | 213    | 0      | 0      | 0     |
| Sub-total, 1.1   | 23,691 | 500 | 14,412 | 15,300 | 10,000 | 7,750 |
| SO 1.1 in Percent  | 13%    | 12% | 6%     | 8%     | 7%     | 6%    |

| 1.2 Increased Soundness of Fiscal Policies and Fiscal Management Practices |     |  |       |       |       |       |
|--|-----|--|-------|-------|-------|-------|
| 9.1 Fiscal Reforms   | 745 |  | 3,500 | 5,800 | 4,200 | 3,360 |
| 9.4 Program Design and Management  |     |  | 250   | 250   | 250   | 200   |
| Sub-total, 1.2   | 745 |  | 3,750 | 6,050 | 4,450 | 3,560 |
| SO 1.2 in Percent  | 0%  |  | 2%    | 3%    | 3%    | 3%    |

| 1.3 Accelerated Development and Growth of Private Enterprises |       |   |        |        |        |        |
|---|-------|---|--------|--------|--------|--------|
| 2.1 Pricing & National Policy                                 | 336   |   |        |        |        |        |
| 5.5 Post-Privatization Assistance to Enterprises              | 0     |   | 1,385  | 4,000  | 5,000  | 3,750  |
| 5.6 Policy, Legal and Regulatory Reform                       | 0     |   | 1,000  | 700    | 0      | 0      |
| 5.7 Small & New Business                                      | 0     |   | 2,000  | 4,000  | 3,000  | 3,000  |
| 5.9 Program Design and Management                             | 0     |   | 1,000  | 1,000  | 1,000  | 900    |
| 6.1 Storage System  |       |   |        |        |        |        |
| 6.2 Marketing Efficiency                                      | 0     |   | 1,500  | 1,000  | 1,000  | 0      |
| 6.3 Agribusiness Partnerships                                 | 0     |   | 5,250  | 13,750 | 10,250 | 8,950  |
| 6.5 Program Design & Management                               | 0     |   | 250    | 250    | 250    | 250    |
| 9.3.1 Market Environment                                      | 800   |   | 2,970  | 4,200  | 3,100  | 2,500  |
| 9.4 Program Design and Management                             | 631   |   | 300    | 300    | 300    | 240    |
| 11.1 Enterprise Funds   |       |   | 15,000 | 15,000 | 15,000 | 12,000 |
| Sub-total, 1.3  | 1,767 | 0 | 30,655 | 44,200 | 38,900 | 31,590 |
| SO 1.3 in Percent   | 1%    |   | 14%    | 24%    | 26%    | 26%    |

| 1.4 A More Competitive and Market-responsive Private Financial Sector |        |   |        |        |       |       |
|---|--------|---|--------|--------|-------|-------|
| 5.3 Capital Markets   | 2,869  |   | 5,000  | 5,000  | 4,000 | 3,000 |
| 9.2 Financial Sector Reform   | 19,805 |   | 4,800  | 5,700  | 4,500 | 3,600 |
| 9.3.1 Market Environment  |        |   | 1,000  | 1,500  | 1,000 | 800   |
| 9.4 Program Design and Management                                     |        |   | 250    | 250    | 250   | 200   |
| Sub-total, 1.4  | 22,674 | 0 | 11,050 | 12,450 | 9,750 | 7,600 |
| SO 1.4 in Percent   | 13%    |   | 5%     | 7%     | 7%    | 6%    |

| 1.5 A More Economically Sound and Environmentally Sustainable Energy System |        |     |        |        |       |       |
|---|--------|-----|--------|--------|-------|-------|
| 2.2 District Heating & Energy Efficiency                                    | 2,000  |     |        |        |       |       |
| 2.3 Energy Subsector Restructuring  | 75,349 | 500 | 6,700  | 10,700 | 8,000 | 6,400 |
| 2.6 Program Design and Management   | 336    |     | 300    | 300    | 400   | 320   |
| Chernobyl Initiative  |        |     | 48,000 |        |       |       |
| Sub-total, 1.5  | 77,685 | 500 | 55,000 | 11,000 | 8,400 | 6,720 |
| SO 1.5 in Percent   | 44%    | 12% | 24%    | 6%     | 6%    | 6%    |

|                        |         |       |         |        |        |        |
|------------------------|---------|-------|---------|--------|--------|--------|
| STRATEGIC AREA 1 TOTAL | 126,562 | 1,000 | 114,867 | 89,000 | 71,500 | 57,220 |
| SAA 1 in Percent       | 71.9%   | 23.7% | 51.1%   | 49%    | 47.7%  | 47.7%  |

- \* Component 5.3, Capital Markets, includes additional \$2,250,000 to fully fund \$3 million earmark for commodity exchange board.
- \* \$20 million earmark for small/medium sized enterprises is fully included in overall Mission budget.
- \* Component 9.3.1, Market Environment (OER) includes \$5 million for earmark for University market/mgt economics.
- \* Component 9.3.1, Market Environment (OER) contains \$1.5 million for HHD Cooperative Agreement.
- \* Component 9.3.1, Market Environment - Social Sector Restructuring budget satisfies \$5 million earmark for imp. social service delivery.
- \* Component 2.3.2, Energy Privatization and Restructuring, includes \$2 million for earmark to assess energy distribution grid.

**STRATEGIC ASSISTANCE AREA 2: DEMOCRATIC TRANSITION**  
 Support the transition to transparent and accountable governance  
 and the empowerment of citizens through democratic political processes.

| STRATEGIC OBJECTIVE | FY 95 | FY 95<br>carryover | FY 96 | FY 97 | FY 98 | FY 98<br>-20% |
|---------------------|-------|--------------------|-------|-------|-------|---------------|
|---------------------|-------|--------------------|-------|-------|-------|---------------|

| <b>2.1 Increased, Better-Informed Citizens' Participation in Political and Economic Decision-making</b> |       |   |       |       |       |       |
|---|-------|---|-------|-------|-------|-------|
| 7.1 Political Process   | 2,100 |   | 1,800 | 3,000 | 3,000 | 2,400 |
| 7.4.1 Civil Society   | 300   |   | 300   | 1,300 | 1,000 | 800   |
| 7.5 Independent Media   | 800   |   | 2,800 | 2,500 | 1,600 | 1,240 |
| Sub-total, 2.1  | 3,200 | 0 | 4,900 | 6,800 | 5,600 | 4,440 |
| SO 2.1 In Percent   | 1.8%  |   | 2.2%  | 3.7%  | 3.7%  | 3.7%  |

| <b>2.2 Legal Systems that Better Support Democratic Processes and Market Reforms</b> |       |   |       |       |       |       |
|--|-------|---|-------|-------|-------|-------|
| 7.2 Rule of Law  | 3,100 |   | 4,900 | 5,000 | 4,000 | 3,200 |
| 7.6 Program Design & Management  | 500   |   | 500   | 700   | 700   | 600   |
| Sub-total, 2.2   | 3,600 | 0 | 5,400 | 5,700 | 4,700 | 3,800 |
| SO 2.2 In Percent  | 2.0%  |   | 2.4%  | 3.1%  | 3.1%  | 3.2%  |

| <b>2.3 More Effective, Responsible and Accountable Local Government</b> |       |   |       |       |       |       |
|---|-------|---|-------|-------|-------|-------|
| 7.3 Public Administration/ Local Government                             | 2,000 |   | 2,000 | 5,000 | 2,500 | 2,000 |
| Sub-total, 2.3  | 2,000 | 0 | 2,000 | 5,000 | 2,500 | 2,000 |
| SO 2.3 In Percent   | 1.1%  |   | 0.9%  | 2.7%  | 1.7%  | 1.7%  |

|                               |       |   |        |        |        |        |
|-------------------------------|-------|---|--------|--------|--------|--------|
| <b>STRATEGIC AREA 2 TOTAL</b> | 8,800 | 0 | 12,300 | 17,500 | 12,800 | 10,240 |
| <b>SAA 2 In Percent</b>       | 5.0%  |   | 5.5%   | 9.6%   | 8.5%   | 8.5%   |

\* Component 7.5, Independent Media, includes earmark for strengthening independent media.

**STRATEGIC ASSISTANCE AREA 3: SOCIAL STABILIZATION**

Respond to humanitarian crises and strengthen the capacity to manage the human dimension of the transition to democracy.

| STRATEGIC OBJECTIVE | FY 96 | FY 96 carryover | FY 96 | FY 97 | FY 98 | FY 98 -30% |
|---------------------|-------|-----------------|-------|-------|-------|------------|
|---------------------|-------|-----------------|-------|-------|-------|------------|

| <b>3.1 Reduced Human Suffering and Crisis Impact</b> |             |  |              |              |              |              |
|--|-------------|--|--------------|--------------|--------------|--------------|
| 1.1 Emergency Humanitarian Assistance                | 0           |  | 0            | 1,000        | 1,000        | 800          |
| 7.4.2 PVO/NGO Network                                |             |  | 1,200        | 2,500        | 2,500        | 2,000        |
| 632: Transfer: Humanitarian Transport                | 0           |  | 3,000        | 3,000        | 0            | 0            |
| 4.2 Vaccine & Pharmaceutical Security                | 0           |  | 500          | 1,500        | 500          | 480          |
| 4.3 Health Monitoring                                |             |  |              |              | 700          | 500          |
| <b>Sub-total, 3.1</b>                                | <b>0</b>    |  | <b>4,700</b> | <b>8,000</b> | <b>4,700</b> | <b>3,780</b> |
| <b>SO 3.1 In Percent</b>                             | <b>0.0%</b> |  | <b>2.1%</b>  | <b>4.4%</b>  | <b>3.1%</b>  | <b>3.2%</b>  |

| <b>3.2 Improved Sustainability of Social Benefits and Services</b> |              |          |              |               |              |              |
|--|--------------|----------|--------------|---------------|--------------|--------------|
| 4.4 Finance and Service Delivery Alternatives                      | 2,000        |          | 1,650        | 2,500         | 1,500        | 1,000        |
| 4.6 Project Design and Management                                  | 0            |          | 183          | 500           | 400          | 300          |
| 9.3.1 Market Environment - Social Sector Restr.                    | 800          |          | 4,000        | 7,000         | 5,400        | 4,300        |
| <b>Sub-total, 3.2</b>  | <b>2,800</b> | <b>0</b> | <b>5,833</b> | <b>10,000</b> | <b>7,300</b> | <b>5,600</b> |
| <b>SO 3.2 In Percent</b>   | <b>1.6%</b>  |          | <b>2.6%</b>  | <b>5.5%</b>   | <b>4.9%</b>  | <b>4.7%</b>  |

| <b>3.3 Reduced Environmental Risks to Public Health</b> |              |             |              |              |              |              |
|---|--------------|-------------|--------------|--------------|--------------|--------------|
| 3.1 Environment Policy & Institution Building           | 2,851        |             | 1,500        | 2,200        | 1,300        | 1,100        |
| 3.2 Health Risks  | 863          |             | 2,000        | 2,000        | 2,000        | 1,680        |
| 3.3 Public Awareness & Environmental Accountability     | 400          | 300         | 400          | 600          | 400          | 200          |
| 3.5 Natural Resource Mgt. & Biodiversity                | 900          |             | 600          | 500          | 400          | 300          |
| 3.6 Program Design & Management                         | 388          | 19          | 500          | 700          | 500          | 400          |
| Pesticides -Global Bureau                               | 196          |             |              |              |              |              |
| <b>Sub-total, 3.3</b>                                   | <b>5,598</b> | <b>319</b>  | <b>5,000</b> | <b>6,000</b> | <b>4,600</b> | <b>3,680</b> |
| <b>SO 3.3 In Percent</b>                                | <b>3.2%</b>  | <b>7.6%</b> | <b>2.2%</b>  | <b>3.3%</b>  | <b>3.1%</b>  | <b>3.1%</b>  |

|                                  |              |             |               |               |               |               |
|----------------------------------|--------------|-------------|---------------|---------------|---------------|---------------|
| <b>STRATEGIC AREA - 3: TOTAL</b> | <b>8,398</b> | <b>319</b>  | <b>15,533</b> | <b>24,000</b> | <b>16,600</b> | <b>13,060</b> |
| <b>SAA 3 In Percent</b>          | <b>4.8%</b>  | <b>7.6%</b> | <b>6.9%</b>   | <b>13.2%</b>  | <b>11.1%</b>  | <b>10.9%</b>  |

- \* Component 3.2, Health Risks, includes \$5 million for earmark for Survey of Chernobyl contamination.
- \* Component 4.3, Health Monitoring, includes \$5 million for earmark for Chernobyl breast cancer: screen, diagnose, treat.
- \* 632 Transfers - Nuclear Safety, includes \$50 million for earmark for nuclear energy self-sufficiency/safety. Some of this earmark may be met from another appropriation act.

**STRATEGIC ASSISTANCE AREA 4: CROSS-CUTTING PROGRAMS/SPECIAL INITIATIVES**

| STRATEGIC OBJECTIVE | FY 95 | FY 95<br>carryover | FY 96 | FY 97 | FY 98 | FY 98<br>-20% |
|---------------------|-------|--------------------|-------|-------|-------|---------------|
|---------------------|-------|--------------------|-------|-------|-------|---------------|

| <b>4.1 Special Initiatives</b>               |               |              |               |               |               |               |
|--|---------------|--------------|---------------|---------------|---------------|---------------|
| 2.4 Nuclear Power Safety (EBRD)              | 2,100         |              |               |               |               |               |
| 4.1 Medical Partnerships                     | 2,000         |              | 6,000         | 1,000         | 1,000         | 1,000         |
| 4.5 Women's Health / Family Planning         | 2,987         |              | 5,200         | 0             | 0             | 0             |
| 632 Transfer: Peace Corps                    | 1,800         |              | 2,400         | 2,000         | 0             | 0             |
| 632 Transfer: Commerce                       | 838           |              | 1,000         | 1,000         | 0             | 0             |
| 632 Transfer: USIA Training & Exchanges      | 9,250         |              | 10,200        | 10,000        | 0             | 0             |
| 632 Transfer: Law Enforcement                | 0             |              | 3,000         | 3,000         | 0             | 0             |
| 632 Rule of Law - CRS                        |               | 1,000        |               |               |               |               |
| 632 Transfer: Nuclear Safety (DOE)           | 6,900         |              | 15,400        | 0             | 19,000        | 15,200        |
| 632 Transfer: GATT - Commerce                |               |              | 300           |               |               |               |
| 632 Transfer: Nuclear Safety (NRC & studies) | 0             | 1,900        | 2,000         | 2,000         |               |               |
| 632 Transfer: Nuclear Safety (EBRD part)     | 0             | 0            | 10,000        | 0             |               |               |
| 632 Transfer: Warsaw Initiative              | 0             |              | 3,400         | 2,000         | 0             | 0             |
| Transfer: G Bureau for WID                   | 25            |              |               |               |               |               |
| <b>Sub-total, 4.1</b>                        | <b>25,900</b> | <b>2,900</b> | <b>58,900</b> | <b>21,000</b> | <b>20,000</b> | <b>16,200</b> |
| <b>SO 4.1 in Percent</b>                     | <b>14.7%</b>  | <b>68.7%</b> | <b>26.2%</b>  | <b>11.5%</b>  | <b>13.3%</b>  | <b>13.5%</b>  |

| <b>4.2 Crosscutting Programs</b> |              |  |              |               |              |              |
|----------------------------------|--------------|--|--------------|---------------|--------------|--------------|
| 12.1 Participant Training        | 5,905        |  | 4,800        | 6,000         | 4,600        | 3,680        |
| 10.0 Eurasia Foundation          | 0            |  | 3,500        | 3,500         | 3,500        | 2,800        |
| 1.2.2 Tech. Support & PD&S       | 500          |  | 500          | 1,000         | 1,000        | 800          |
| <b>Sub-total, 4.2</b>            | <b>6,405</b> |  | <b>8,800</b> | <b>10,500</b> | <b>9,100</b> | <b>7,280</b> |
| <b>SO 4.2 in Percent</b>         | <b>3.6%</b>  |  | <b>3.9%</b>  | <b>5.8%</b>   | <b>6.1%</b>  | <b>6.1%</b>  |

|                                   |               |              |               |               |               |               |
|-----------------------------------|---------------|--------------|---------------|---------------|---------------|---------------|
| <b>ASSISTANCE AREA - 4: TOTAL</b> | <b>32,305</b> | <b>2,900</b> | <b>67,700</b> | <b>31,500</b> | <b>29,100</b> | <b>23,480</b> |
| <b>SAA 4 in Percent</b>           | <b>18.3%</b>  | <b>68.7%</b> | <b>30.1%</b>  | <b>17.3%</b>  | <b>19.4%</b>  | <b>19.6%</b>  |

**Annex 2  
Funding Scenarios by Objective\*  
(\$000)**

| OBJECTIVE  | FY 1996** | FY 1997*** | FY 1998  |           |
|--|-----------|------------|----------|-----------|
|  |           |            | Base**** | Base -10% |
| <b>Strategic Objective #___: (text)</b><br><br>Development Assistance/SEED/FSA*****<br>Economic Support Funds<br>PL480: Title II<br>Title III<br>International Disaster Assistance<br>Other (HG,MSED,ECA)*****         |           |            |          |           |
| <b>Special Objective #___: (text)</b><br><br>Development Assistance/SEED/FSA*****<br>Economic Support Funds<br>PL480: Title II<br>Title III<br>International Disaster Assistance<br>Other (HG,MSED,ECA)*****           |           |            |          |           |
| <b>Strategic Support Objective #___: (text)</b><br><br>Development Assistance/SEED/FSA*****<br>Economic Support Funds<br>PL480: Title II<br>Title III<br>International Disaster Assistance<br>Other (HG,MSED,ECA)***** |           |            |          |           |
| <b>Total</b><br><br>Development Assistance/SEED/FSA*****<br>Economic Support Funds<br>PL480: Title II<br>Title III<br>International Disaster Assistance<br>Other (HG,MSED,ECA)*****                                    |           |            |          |           |

\* Use all funding splits, including DA, SEED, FSA, ESF, PL480, IDA, HG, MSED, and ECA.  
 \*\* For FY 1996, use operating bureau budget allocations based on the FY 1996 Appropriations Act. In the case of PL480, use appropriations from the Agriculture Appropriations Act.  
 \*\*\* For FY 1997, use operating bureau allocations based on the FY 1997 OMB passback level.  
 \*\*\*\* Base is defined as operating bureau allocations based on the FY 1997 passback level.  
 \*\*\*\*\* Please disaggregate by funding category.

## Ukraine Strategic Objective Teams

### S.O. 1.1 Increased transfer of state-owned assets to the private sector.

#### Core Team

Mike Kaiser, USAID/Kiev, Team Leader  
Felix Shklyaruk, USAID/Kiev  
Paul Dodds, USAID/Kiev  
Barbara Lipman, USAID/Kiev  
Walter Coles, ENI/PER  
Eugenia Malikova, USAID/Kiev  
Michelle Varnhagen, USAID/Kiev  
Victoria Marchenko, USAID/Kiev  
Robin Schwartzman, ENI/PER

#### Expanded Team Members

Anne Aarnes, USAID/Kiev  
Steve Hadley, USAID/Kiev  
Ian Shuker, IBRD  
Georgia Sambunaris, ENI/PER  
Barry Veret, ENI/EEUD/UDH  
Beth Shair, World Bank  
Peter Nyren, U.S. Embassy Kiev  
Alyona Voloshina, IFC  
Chiara Clothier, IFC  
Tom Millar, EU TACIS  
John Johnson, PW  
Svetlana Ledomskaya, SPF  
Yuri Taratorin, UCCA  
Angus Olson, Padco  
Vladimir Shimkin  
Alan Unger, Gavin Anderson  
Bernard Drum, World Bank

### S.O. 1.2 Increased soundness of fiscal policies and fiscal management practices.

#### Core Team

Elinor Bachrach, USAID/Kiev, Team Leader  
Laurie Landy, USAID/Kiev  
Yaro Kulchykyj, USAID/Kiev  
Margaret Pollack, ENI/PER

#### Expanded Team Members

Pat Sommers, USAID/Kiev

Ilona Countryman, ENI/DG/RLG  
Bohdan Radejko, Parliamentary Development Project  
Vladyslav Nosov, Member of Ukrainian Parliament and Member of Budget Commission  
Yehven Zovtiak, Member of Ukrainian Parliament, Deputy Director of Banking and  
Finance Commission  
Oleksander Diomin, Deputy Head of Parliament, Head of International Donor Committee

**S.O. 1.3 Accelerated development and growth of private enterprises.**

**Core Team**

Steve Hadley, USAID/Kiev, Team Leader  
Harry Walters, USAID/Kiev  
Paul Novick, ENI/ED/SB  
Jim Neeley, USAID/Kiev  
Victor Andrievsky, USAID/Kiev  
Karrye Braxton, USAID/Kiev  
Felix Shklyaruk, USAID/Kiev  
Barbara Lipman, USAID/Kiev  
Dennis Sharma, ENI/ED/AG  
Olha Holoyda, USAID/Kiev  
Ivan Shvets, USAID/Kiev  
Victoria Marchenko, USAID/Kiev  
Lea Swanson, USAID/Kiev  
Walter Coles, ENI/PER  
Greg Hemphill, ENI/PER  
Richard Rousseau, ENI/ED

**Expanded Team Members**

Anne Aarnes, USAID/Kiev  
CNFA  
Chemonics  
VOCA  
Winrock International  
Land O'Lakes  
DAI  
Bob Boehme, U.S. Embassy Kiev  
IFC  
EU TACIS - Tom Millar  
British Know How Fund  
Eurasia Foundation  
Western NIS Enterprise Fund  
Ministry of Economy  
Cabinet of Ministers, Department for Enterprise Development  
President's Administration  
Robert Walker, USDA

Solodky, Ministry of Agriculture  
Jim Jones, Price Waterhouse  
Gilles De Gasquet, EU TACIS  
Angela Prigozhina, World Bank  
Sherry Grossman, ENI/NCA  
Barry Veret, ENI/EEUD  
Charles Uphaus, ENI/ED  
Marcus Winter, ENI/ED

**S.O. 1.4 A more competitive and market-responsive private financial sector.**

**Core Team**

Laurie Landy, USAID/Kiev, Team Leader  
Tom Downen, USAID/Kiev  
Jim Neeley, USAID/Kiev  
Mike Kaiser, USAID/Kiev  
Victor Stetsenko, USAID/Kiev  
Bryan Kurtz, ENI/PER  
Georgia Sambunaris, ENI/PER  
Walter Coles, ENI/PER  
Kim McKeon, ENI/PER  
Victoria Marchenko, USAID/Kiev

**Expanded Team Members**

Pat Sommers, USAID/Kiev  
Securities Commission of Ukraine  
Ministry of Finance  
National Bank  
Administration of President  
Some Commissions of Supreme Rada  
AntiMonopoly Committee  
Gilles de Gasquet, EU TACIS  
Ukrainian Association of Investment Businesses  
PFTS: Ukrainian over-the-counter share traders association  
KPMG/Barents  
Financial Markets International  
Price Waterhouse  
Bob Boehme, US Embassy, Kiev  
Bernard Drum, World Bank  
Ester Saverson, Bob Strahota, US SEC

**S.O. 1.5 A more economically sound and environmentally sustainable energy system.**

**Core Team**

Pat Shapiro, USAID/Kiev, Team Leader  
Lea Swanson, USAID/Kiev  
Andrei Parinov, USAID/Kiev  
Bob Archer, ENI/EEUD/EI  
Bob Ichord, ENI/EEUD/EI  
Mike Rossinsky

**Expanded Team Members**

Pat Sommers, USAID/Kiev  
Doug Apostal, US Embassy, Kiev  
Tom Carney, World Bank  
David Wolcott, Hagler Bailley  
EU TACIS  
EBRD

**S.O. 2.1 Increased, better-informed citizens' participation in political and economic decision-making.**

**Core Team**

Roger Yochelson, USAID/Kiev, Team Leader  
David Black, USAID/Kiev  
Yaro Kulchycky, USAID/Kiev  
Jim Neeley, USAID/Kiev  
Molly Mort, USAID/Kiev  
Mitch Benedict, ENI/DG  
Felix Shklyaruk, USAID/Kiev

**Expanded Team Members**

Viachyslav Pikhovshek, Director, Ukrainian Center for Independent Political Research  
(UCIPR)  
Valery Pylypenko, Director, Democratic Initiative (DI)  
Viktor Pynzenyk, President, Reform Support Fund of Ukraine  
Volodymyr Lanoviy, Director, Ukrainian Market Reform Center  
Bob Boehme, Chief of Economic Section, U.S. Embassy  
Eric Green, Political Section, U.S. Embassy  
Ivan Yemets, Head of Ukrainian Central Election Commission  
Mykola Kniazhitsky, President, Internews  
Illia Labunka, Freedom House Kiev  
Katie Fox, National Democratic Institute  
Tom Garrett, International Republican Institute (IRI)  
Diane Tausner, National Democratic Institute (NDI)  
Olexy Slenzak, World Bank

Tim Gould, European Union  
Fionna Gibb, Director, British Know How Fund  
Mary Ann Riegelman, ENI/DG

**S.O. 2.2 Legal systems that better support democratic processes and market reforms.**

**Core Team**

David Black, USAID/Kiev, Team Leader  
Roger Yochelson, USAID/Kiev  
Jim Neeley, USAID/Kiev  
Steve Hadley, USAID/Kiev  
Patricia Liefert, ENI/DG

**Expanded Team Members**

Pat Sommers, USAID/Kiev  
Pat Shapiro, USAID/Kiev  
Mike Kaiser, USAID/Kiev  
Olha Holoyda, USAID/Kiev  
Felix Shklyaruk, USAID/Kiev  
Victor Stetsenko, USAID/Kiev  
Keith Henderson, ENI/DG  
DOJ Representative  
FBI Representative  
ARD/Checchi Representative  
ABA/CEELI Representative  
Halyna Freeland, Ukrainian Legal Foundation  
Eric Green, US Embassy  
Christa Capozzola, S/NIS

**S.O. 2.3 More effective, responsive, and accountable local government.**

**Core Team**

Roger Yochelson, USAID/Kiev, Team Leader  
Yaro Kulchyckyj, USAID/Kiev  
Dona Mularkey, USAID/Kiev  
Barbara Lipman, USAID/Kiev  
Robbin Burkhart, USAID/Kiev  
Patricia Liefert, ENI/DG/PSPM

**Expanded Team Members**

Linda Bernstein, USAID/Kiev  
Ted Priftis, ENI/DG/RLG  
Paul Hoover, COP, Research Triangle Institute (RTI)  
Matt Glasser, Director of Municipal Finance Management (MFM)

Nadia McConnell, President, US Ukraine Foundation  
Markian Bilinsky, Coordinator for newly funded local government activity in Ukraine  
Myroslav Pitsyk, Executive Director, Ukraine Association of Cities  
Yevhen Kyshnaryov, Chairman of the Board, Ukraine Association of Cities, Mayor of  
Kharkiv  
Ellie Valentine, Parliamentary Development Project  
Mykola Kniazhitsky, President, Internews  
Anders Zeijlon, World Bank  
Tim Gould, European Union  
Fionna Gibb, Director, British Know How Fund

**S.O. 3.1 Reduced human suffering and crisis impact.**

**Core Team**

Molly Mort, USAID/Kiev, Team Leader  
Anne Aarnes, USAID/Kiev  
Konstantin Yakubenko, USAID/Kiev  
Paul Holmes, ENI/HR  
Christine Sheckler, ENI/DG  
Olena Radziewska, USAID/Kiev  
Michelle Varnhagen, USAID/Kiev

**Expanded Team Members**

David Black, USAID/Kiev  
Yaro Kulchyckyj, USAID/Kiev  
Mike Fritz, USAID/EXO  
Robert Jiminez, ENI/HR  
Nick Dewchakiwsky, Eurasia Foundation  
Brian Propp, Counterpart CHAP  
Charlotte Watson, Counterpart  
John Pott, PATH  
John Connell, SAO, US Embassy  
Sherry Grossman, ENI/NCA

**S.O. 3.2 Improved sustainability of social benefits and services.**

**Core Team**

Michelle Varnhagen, USAID/Kiev, Team Leader  
Siana Tackett, USAID/Kiev  
Roger Yochelson, USAID/Kiev  
Barbara Lipman, USAID/Kiev  
Vladimir Yatsenko, USAID/Kiev  
Bruce Grogan, ENI/HR  
Molly Mort, USAID/Kiev

Olena Radziewska, USAID/Kiev  
Victor Stetsenko, USAID/Kiev  
Elena Oltarshevskaya, USAID/Kiev

**Expanded Team Members**

Roger Vaughan, PADCO  
Anna Nechai, PADCO  
Mike Kaiser, USAID/Kiev  
Bob Boehme, Chief of Economic Section, U.S. Embassy  
Dan Rathbun, ENI/PER  
Paul Ashin, AA/ENI  
Glenn Jenkins, HIID Advisor  
Tom Hoopengardner, World Bank/Washington  
Paulina Aarva, EU/TACIS Contractor  
Graeme Justice, IMF

**S.O. 3.3 Reduced environmental risks to public health.**

**Core Team**

Lea Swanson, USAID/Kiev, Team Leader  
Elena Oltarshevskaya, USAID/Kiev  
Dona Mularkey, USAID/Kiev  
Roger Yochelson, USAID/Kiev  
Mike Kalinowski, ENI/EEUD/ENR  
Melody Bacha, ENI/EEUD/ENR  
Harry Walters, USAID/Kiev  
Siana Tackett, USAID/Kiev

**Expanded Team Members**

Linda Bernstein, USAID/Kiev  
Sherry Grossman, ENI/NCA  
Victor Andrievsky, USAID/Kiev  
Ties van Kempen, CH2M-Hill  
MEPNS representative  
Mr. Loghynov, Cabinet of Ministers  
Mr. Rudoi, Ministry of Industry  
Mr. Bevz, State Committee for Energy Conservation  
ISAR representative  
World Bank representative  
EBRD representative

**Ukraine: SO 1.1 - Increased transfer of state-owned assets to the private sector.**  
**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|--|--|---------------|-------|--------|--------|--------|--------|--------|
|  |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|  |  |               |       | Target | Actual | Target | Target | Target |
| <b>Strategic Objective 1.1: Increased transfer of state-owned assets to the private sector.</b>  |  |               |       |        |        |        |        |        |
| 1. Percentage of GDP generated by the private sector.<br><br>Source: World Bank County Reports   | Definition: private sector component of GDP<br><br>Unit: percentage  | Jan. 1, 1995  | TBD   | TBD    |        | TBD    | TBD    | TBD    |
| <b>IR 1.1.1: Large and medium state enterprises fully privatized.</b>  |  |               |       |        |        |        |        |        |
| 1. Number of companies at least 70% privatized.<br><br>Source: SPF   | Definition: 70% private ownership of an individual company<br><br>Unit: total number of companies since baseline | Jan. 1, 1995  | 0     | 3,500  |        | 6,500  | 8,000  | N/A    |
| <p>Note #1: The standard used by USAID and the World Bank (and a conditionality of the World Bank's releasing financing). Below 70% a Ukrainian company is less likely to operate freely of state influence to maximize profit. For purposes of tracking percentages sold, we will begin with January 1, 1995 as the "zero" date because companies sold prior to that date were not in the current Cabinet of Ministers list.</p> <p>Note #2: The number of companies approved under Cabinet of Ministers list for privatization will change. Approximately 1,000 companies under the current list are collective farms. These were included improperly and may be excluded from the list within the next several months. There are several thousand companies on the so-called "negative list" which are not currently slated for privatization which may, over time, be approved for sale.</p> |  |               |       |        |        |        |        |        |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |        |        |        |        |        |
|---|---|---------------|-------|--------|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target | Actual | Target | Target | Target |
| <b>IR 1.1.1.1: People participate in auctions.</b>  |   |               |       |        |        |        |        |        |
| <p>1. Number of privatization certificates picked up or accounts opened by the public.</p> <p>(Note: Accounts can no longer be opened and are treated as the equivalent of certificates.)</p> <p>Source: Savings Bank</p> | <p>Definition: 48 million privatization certificates are available - one for each citizen of Ukraine. Deadline for certificate pickup: June 30, 1996</p> <p>Unit: percentage of population which has picked up certificates</p> | 1994          | 0     | 80     |        | N/A    | N/A    | N/A    |
| <p>2. Number of privatization certificates invested.</p> <p>Source: UCCA/SPF</p>  | <p>Definition: total number of certificates picked up which have been invested. Deadline for certificate investment: December, 1996</p> <p>Unit: percent</p>  | 1994          | 0     | 75     |        | N/A    | N/A    | N/A    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA  |   | 1996         |        | 1997   | 1998   | 1999   |
|--|--|--|---|--------------|--------|--------|--------|--------|
|  |  | YEAR   | VALUE   | Target       | Actual | Target | Target | Target |
|  |  | 3. Number of savings certificates picked up.<br><br>Source: Savings Bank | Definition: 205 million tradeable savings certificates are available, to be distributed to citizens based on their level of savings lost through hyperinflation<br><br>Unit: total number of certificates picked up (million) | Jan. 1, 1995 | 0      | 70     |        | 135    |
| <b>IR 1.1.1.2: Policies, laws and regulations facilitate privatization.</b>  |  |  |   |              |        |        |        |        |
| 1. Transparency of the sales process.<br><br>Source: SPF, PW, Gavin Anderson/PBN                                   | Definition: one month before every auction, an advertisement is published which provides the public with information on the auction, how to participate, companies to be sold and previous auction results<br><br>Unit: Yes/No | 1995   | Yes   | Yes          |        | Yes    | Yes    | Yes    |
| 2. President's '96 Privatization Decree accelerating program is adopted.<br><br>Source: President's Administration | Definition: adoption of decree<br><br>Unit: Yes/No   | 1995   | No  | Yes          |        | N/A    | N/A    | N/A    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |                |        |        |        |        |
|---|---|---------------|-------|----------------|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996           |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target         | Actual | Target | Target | Target |
| <p>3. Decree is issued (or other predictable solution reached) which makes agroindustrial enterprise move quickly through the privatization pipeline.</p> <p>Source: President's Administration, Rada, CabMin</p> | <p>Definition: issuance of the expediting decree by President or other comparable, predictable solution reached</p> <p>Unit: Yes/No</p>   | 1995          | No    | Yes            |        | Yes    | Yes    | Yes    |
| <p>4. There is no indexation of fixed assets prior to privatization.</p> <p>Source: Rada, CabMin, SPF</p>   | <p>Definition: issuance of normative acts protecting assets undergoing privatization from indexation</p> <p>Unit: Yes/No</p>  | 1995          | No    | Yes            |        | Yes    | Yes    | Yes    |
| <p>5. Compensation certificate auctions are held regularly in which all share packages offered are sold without regard to nominal value.</p> <p>Source: UCCA, SPF, PW</p>   | <p>Definition: average monthly total number of companies with shares offered and fully sold for compensation certificates</p> <p>Unit: average monthly number of different enterprises offered for sale through compensation certificate auctions</p> | 1995          | 0     | 200 as of June |        | 200    | N/A    | N/A    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |        |        |        |        |        |
|--|---|---------------|-------|--------|--------|--------|--------|--------|
|  |   | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|  |   |               |       | Target | Actual | Target | Target | Target |
| 6. Incentives are provided to managers and workers to participate in privatization.<br><br>Source: SPF, PW | Definition: average percentage of shares which managers/workers successfully purchase in closed subscription<br><br>Unit: percent | 1995          | 5     | 10     |        | 10     | N/A    | N/A    |

169

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |        |                       |        |                   |        |        |
|---|--|---------------|--------|-----------------------|--------|-------------------|--------|--------|
|   |  | YEAR          | VALUE  | 1996                  |        | 1997              | 1998   | 1999   |
|   |  |               |        | Target                | Actual | Target            | Target | Target |
| <b>IR 1.1.1.3: State-owned enterprises are prepared for and entering privatization.</b>   |  |               |        |                       |        |                   |        |        |
| 1. Enterprise Preparation Task Forces operating in every oblast.<br><br>Source: SPF   | Definition: issuance of monthly tasks for all RPTF's<br><br>Unit: percent of 27 oblasts with monthly tasks | 1995          | 0      | 100 for last 9 months |        | 100 for 12 months | N/A    | N/A    |
| 2. Central SPF data base filled and providing regular reports of enterprise preparation, pipeline status and share sale results.<br><br>Source: SPF | Definition: percentage completion of "ETAP" data entry<br><br>Unit: percent                                | 1995          | 0      | 100                   |        | 100               | N/A    | N/A    |
| <b>IR 1.1.1.4: Auction network is established and functioning.</b>  |  |               |        |                       |        |                   |        |        |
| 1. Number of auction centers operating.<br><br>Source: UCCA   | Definition: number of privatization auction centers working<br><br>Unit: number                            | 1995          | 27     | 27                    |        | 20                | N/A    | N/A    |
| 2. Number of auction centers employees.<br><br>Source: UCCA   | Definition: number of auction centers employees<br><br>Unit: number  | 1995          | ca 950 | ca 1100               |        | ca 1000           | N/A    | N/A    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |        |        |        |        |        |        |
|--|---|---------------|--------|--------|--------|--------|--------|--------|
|  |   | YEAR          | VALUE  | 1996   |        | 1997   | 1998   | 1999   |
|  |   |               |        | Target | Actual | Target | Target | Target |
| <b>IR 1.1.2 : Small-scale enterprises are sold.</b>  |   |               |        |        |        |        |        |        |
| 1. Number of small businesses privatized in Ukraine.<br><br>Source: IFC  | Definition: small businesses are those valued under \$175,000<br><br>Unit: number   | 1995          | 21,000 | 31,900 |        | 34,900 | N/A    | N/A    |
| Note: According to the Presidential Decree on privatization tasks in 1996, small-scale privatization is to be completed on the whole by July. We estimate that it will take through spring 1997. |   |               |        |        |        |        |        |        |
| <b>IR 1.1.2.1: Policies, laws and regulations facilitate small scale privatization.</b>  |   |               |        |        |        |        |        |        |
| 1. Laws and regulations on small-scale privatization that would reduce the effectiveness of the program are not passed.<br><br>Source: Rada, CabMin  | Definition: laws and regulations re: valuation and audit, indexation of company assets prior to privatization, etc.<br><br>Unit: Yes/No | 1995          | No     | No     |        | No     | N/A    | N/A    |
| 2. Transparent and open sales process: increasing percent of small-scale enterprises sold through public auctions vs. other methods<br><br>Source: SPF/IFC                                       | Definition: total number of enterprises sold in auctions divided by total number of enterprises sold<br><br>Unit: percent               | 1995          | 20     | 25     |        | 50     | N/A    | N/A    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |             |        |             |        |        |
|---|--|---------------|-------|-------------|--------|-------------|--------|--------|
|   |  | YEAR          | VALUE | 1996        |        | 1997        | 1998   | 1999   |
|   |  |               |       | Target      | Actual | Target      | Target | Target |
| <b>IR 1.1.2.2: Small cities and rayons accelerate sales.</b>  |  |               |       |             |        |             |        |        |
| 1. Geographic scope of the activity is expanded.<br><br>Source: IFC   | Definition: number of jurisdictions where TA teams are working increases<br><br>Unit: number of cities | 1995          | 18    | 22 & Crimea |        | 23 & Crimea | N/A    | N/A    |
| <b>IR 1.1.3: Residential buildings are privately owned.</b>   |  |               |       |             |        |             |        |        |
| 1. Number of condominiums registered with local government.<br><br>Source: State Committee for Housing & Municipal Economy              | Definition: registered associations<br><br>Unit: number per year                                       | 1995          | 7     | 15          |        | 50          | 100    | 200    |
| <b>IR 1.1.3.1: Condominium owner associations are functioning.</b>  |  |               |       |             |        |             |        |        |
| 1. Number of resident groups adopting condominium association by-laws.<br><br>Source: State Committee for Housing and Municipal Economy | Definition: resident groups<br><br>Unit: number of groups per year                                     | 1995          | 7     | 75          |        | 100         | 150    | 200    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |           |        |        |        |        |  |
|---|--|---------------|-------|-----------|--------|--------|--------|--------|--|
|   |  | YEAR          | VALUE | 1996      |        | 1997   | 1998   | 1999   |  |
|   |  |               |       | Target    | Actual | Target | Target | Target |  |
| <b>IR 1.1.3.2: Housing laws are enacted and regulations are enforced.</b>   |  |               |       |           |        |        |        |        |  |
| 1. Housing codes.<br><br>Source: State Committee on Housing and Municipal Economy   | Definition: housing code allowing condominium use of common land<br><br>Unit: drafted/submitted/passed | 1995          | draft | submitted |        | passed | N/A    | N/A    |  |
| 2. Amendment to 1992 law on housing privatization.<br><br>Source: State Committee on Housing and Municipal Economy  | Definition: law/regulation on common ownership of residential property)<br><br>Unit: drafted/passed    | 1995          | draft | passed    |        | N/A    | N/A    | N/A    |  |
| <b>IR 1.1.3.3: Housing units are privately owned.</b>   |  |               |       |           |        |        |        |        |  |
| 1. Housing units privatized. (It is necessary to have some private units w/in a bldg. before a condominium association can be formed.)<br><br>Source: GOU, State Committee on Housing and Municipal Economy | Definition: percentage of total units privatized<br><br>Unit: percent - cumulative                     | 1995          | 32 %  | 35 %      |        | 38%    | 40%    | 50%    |  |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |         |        |        |        |        |
|---|---|---------------|-------|---------|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996    |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target  | Actual | Target | Target | Target |
| <b>IR 1.1.3.4: Clear rights to land are established.</b>  |   |               |       |         |        |        |        |        |
| 1. Legislation enacted to clarify use of lands adjacent to privately owned residential buildings.<br><br>Source: Rada, CabMin | Definition: condominiums permitted use of adjacent lands.<br><br>Unit: drafted/passed   | 1995          | No    | drafted |        | passed | N/A    | N/A    |
| <b>IR 1.1.4: Land is privatized (urban, rural &amp; agricultural).</b>  |   |               |       |         |        |        |        |        |
| 1. The amount of privately owned agricultural land used by collective farms.<br><br>Source: State Committee on Land Resources | Definition: the amount of land transferred into the ownership of collective farm members by issuing land certificates<br><br>Unit: cumulative hectares (millions) | 1995          | 0     | 1.0     |        | 5.0    | 12.0   | 15.0   |
| 2. The amount of urban land privately used.<br><br>Source: State Committee on Urban Development and Architecture              | Definition: number of urban land parcels transferred competitively by local governments to private enterprises.<br><br>Unit: cumulative number of land parcels    | 1995          | 40    | 90      |        | 190    | 300    | 400    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA  |  | 1996   |        | 1997   | 1998   | 1999   |
|---|--|--|--|--------|--------|--------|--------|--------|
|   |  | YEAR   | VALUE  | Target | Actual | Target | Target | Target |
|   |  | 3. The amount of the surplus land sold or leased by SOEs to private companies.<br><br>Source: State Committee on Urban Development and Architecture, State Committee on Land Resources | Definition: number of land parcels sold/leased to private companies<br><br>Unit: cumulative number | 1995   | 0      | 0      |        | 10     |
| <b>IR 1.1.4.1: Land auctions and tenders are held.</b>  |  |  |  |        |        |        |        |        |
| 1. Land auctions and tenders held.<br><br>Source: State Committee on Urban Development and Architecture | Definition: number of total land auctions and land tenders held.<br><br>Unit: cumulative number of total land auctions and tenders held. | 1995   | 12   | 32     |        | 50     | 75     | 100    |
| <b>IR 1.1.4.2: Urban land is zoned.</b>   |  |  |  |        |        |        |        |        |
| 1. Urban land zoned<br><br>Source: State Committee on Urban Development and Architecture                | Definition: number of cities having approved zoning ordinance.<br><br>Unit: number of cities   | 1996   | 1  | 3      |        | 7      | 15     | 25     |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |        |        |        |        |        |
|---|---|---------------|-------|--------|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target | Actual | Target | Target | Target |
| <b>IR 1.1.4.3: Land titling and registration system is functioning.</b>   |   |               |       |        |        |        |        |        |
| 1. The number of cities which open titling and registration offices.<br><br>Source: TBD in the process of designing the national system | Definition: cities which are undertaking land titling and registration<br><br>Unit: number of cities  | 1995          | 0     | 13     |        | 15     | 115    | 350    |
| 2. National system of titling and registration functioning.<br><br>Source: TBD in the process of designing the national system          | Definition: national legal, regulatory and institutional framework of titling and registration is in place and cities undertake land titling and registration in a congruent manner<br><br>Unit: Yes/No | 1995          | No    | No     |        | Yes    | Yes    | Yes    |

176

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|---|--|---------------|-------|--------|--------|--------|--------|--------|
|   |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|   |  |               |       | Target | Actual | Target | Target | Target |
| <b>IR 1.1.4.4: Legal framework enables land privatization.</b>  |  |               |       |        |        |        |        |        |
| 1. Four appropriate laws or amendments insuring private ownership of land and facilitating/fostering land privatization are passed.<br><br>Source: Parliament | Definition: Land Code, Titling and Registration, Territorial Planning, Payment on Land, other regulatory and/or procedural acts, regulations, etc.<br><br>Unit: non-cumulative number of laws/amendments passed. | 1995          | 0     | 0      |        | 1      | 3      | 3      |
| <b>IR 1.1.4.5: Agricultural land certificates are distributed.</b>  |  |               |       |        |        |        |        |        |
| 1. The number of land certificates distributed.<br><br>Source: State Committee on Land Resources  | Definition: land certificates distributed to collective farm members<br><br>Unit: cumulative number of land certificates distributed (millions)  | 1995          | 0     | 0.6    |        | 3.5    | 5.0    | N/A    |

**Strategic Objective 1.2: Ukraine**

**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996          |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target        | Actual | Target | Target | Target |
| <b>Strategic Objective 1.2: Increased soundness of fiscal policies and fiscal management practices.</b>       |   |               |       |               |        |        |        |        |
| 1. GOU meets IMF deficit targets.<br><br>Source: IMF Resident Representative                                  | Definition: budget deficit as percent of GDP does not exceed limit in IMF program, according to IMF definition<br><br>Unit: Yes/No  | 1995          | No    | Yes           |        | Yes    | Yes    | Yes    |
| <b>IR 1.2.1: MOF budgeting and financial management practices are reformed.</b>                               |   |               |       |               |        |        |        |        |
| 1. Number of budget revisions required due to inaccurate budget forecasts is reduced.<br><br>Source: MOF-BPMA | Definition: one mid-year revision should suffice if revenue and expenditure forecasts are accurate; two or more indicates significant forecasting errors.<br><br>Unit: number | 1995          | 3     | 2             |        | 1      | 1      | 1      |
| <b>IR 1.2.1.1 Budget preparation process is strengthened.</b>   |   |               |       |               |        |        |        |        |

178

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
|  |   | YEAR          | VALUE | 1996          |        | 1997   | 1998   | 1999   |
|  |   |               |       | Target        | Actual | Target | Target | Target |
| 1. Revenues equal or exceed forecast levels.<br><br>Source: MOF-BPMA           | Definition: as per adopted budget<br><br>Unit: Yes/No   | 1995          | No    | No            |        | No     | Yes    | Yes    |
| 2. Expenditures equal or below planned levels.<br><br>Source: MOF-BPMA         | Definition: as per adopted budget<br><br>Unit: Yes/No   | 1995          | Yes   | Yes           |        | Yes    | Yes    | Yes    |
| <b>IR 1.2.1.1.1: Macroeconomic forecasting capability is improved.</b>         |   |               |       |               |        |        |        |        |
| 1. Accuracy of GDP forecasts improves.<br><br>Source: IMF Res. Rep. and/or MOS | Definition: percentage difference between forecast and actual GDP decreases<br><br>Unit: percent            | 1995          | 16    | 14            |        | 12     | 10     | 8      |
| 2. New macroeconomic databases are created.<br><br>Source: MOF-BPMA            | Definition: additional time series created by MOF/MOE for use in macroeconomic analysis<br><br>Unit: Yes/No | 1995          | No    | No            |        | Yes    | Yes    | Yes    |
| <b>IR 1.2.1.1.2 Budget preparation procedures are streamlined.</b>             |   |               |       |               |        |        |        |        |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT                   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|--|---------------|-------|---------------|--------|--------|--------|--------|
|  |  |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |  | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| 1. Budget submitted to Parliament on time.<br>Source: MOF-Budget Dept. | Definition: as per date provided in budget law<br>Unit: Yes/No | 1995          | No    | No            |        | Yes    | Yes    | Yes    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |  |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|--|
|   |   |               |       | 1996          |        | 1997   | 1998   | 1999   |  |
|   |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |  |
| <b>IR 1.2.1.1.3 Budget analysis capability is developed and reports are produced.</b>   |   |               |       |               |        |        |        |        |  |
| 1. Number of general reports on budget aggregates produced.<br><br>Source: MOF-BPMA   | Definition: to accompany each proposed budget and budget revision<br><br>Unit: number   | 1995          | 0     | 0             |        | 1      | 2      | 2      |  |
| <b>IR 1.2.1.2: Treasury system that integrates budget execution, accounting, cash and debt management is implemented [IMF].</b> |   |               |       |               |        |        |        |        |  |
| 1. Treasury system is operational and meets IMF standards<br><br>Source: IMF, MOF   | Definition: IMF determination<br><br>Unit: Yes/No                                       | 1995          | No    | No            |        | No     | Yes    | Yes    |  |
| <b>IR 1.2.1.2.1 Government debt management system is established</b>  |   |               |       |               |        |        |        |        |  |
| 1. A larger share of the budget deficit financed by government securities.<br><br>Source: NBU-Govt. Securities Dept.            | Definition: proportion financed by government securities increases<br><br>Unit: percent | 1995          | 6.5   | 32.5          |        | 50     | 75     | 95     |  |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
|   |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>IR 1.2.1.3 Intergovernmental finance system is restructured.</b>   |   |               |       |               |        |        |        |        |
| 1. Central to local government funds transfers done on formula basis<br><br>Source: MOF-Budget Dept.  | Definition: budget allocates funds to local governments based on specific weighted criteria rather than local deficit estimates<br><br>Unit: Yes/No   | 1995          | No    | No            |        | Yes    | Yes    | Yes    |
| <b>IR 1.2.2: A market-oriented tax system that encourages compliance is created.</b>  |   |               |       |               |        |        |        |        |
| 1. Number of Taxpayer Identification Numbers (TIN) system is established and the number of taxpayers included in the system increases.<br><br>Source: STI               | Definition: total number of TINs issued to individuals or enterprises increases over prior year<br><br>Unit: cumulative total (millions)              | 1995          | --    | 19,6          |        | 26     | 27     | 30     |
| <b>IR 1.2.2.1 Tax system supports economic growth.</b>  |   |               |       |               |        |        |        |        |
| 1. Major tax laws are revised using international standards, harmonized for incorporation into a single tax code, and submitted to Parliament.<br><br>Source: Rada, STI | Definition: draft revisions to VAT, administrative provisions, corporate income, personal income, excise taxes<br><br>Unit: # submitted to Parliament | 1995          | 0     | 2             |        | 3      | --     | --     |
| <b>IR 1.2.2.2 Tax laws are fairly and efficiently administered.</b>   |   |               |       |               |        |        |        |        |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |         | CALENDAR YEAR       |        |             |          |        |
|--|--|---------------|---------|---------------------|--------|-------------|----------|--------|
|  |  | YEAR          | VALUE   | 1996                |        | 1997        | 1998     | 1999   |
|  |  |               |         | Target              | Actual | Target      | Target   | Target |
| 1. Ratio of cost of tax administration to tax collection decreases.<br><br>Source: STI   | Definition: budget of tax administration unit as proportion of total taxes collected decreases<br><br>Unit: Yes/No | 1995          | No      | No                  |        | No          | Yes      | Yes    |
| <b>IR 1.2.2.2.1 Tax training center is operational.</b>                                  |  |               |         |                     |        |             |          |        |
| 1. Revenues from enforcement actions increase.<br><br>Source: STI                        | Definition: increase over prior year (adjusted for inflation)<br><br>Unit: Yes/No                                  | 1995          | No      | No                  |        | No          | Yes      | Yes    |
| <b>IR 1.2.3: From SO 2.2 Parliament acts affirmatively on fiscal reform legislation.</b> |  |               |         |                     |        |             |          |        |
| 1. Law to establish Audit Control Chamber.<br><br>Source: Rada Gazette                   | Definition:<br><br>Unit: drafted/submitted/passed/implemented  | 1995          | drafted | submitted<br>passed |        | implemented | enforced |        |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
|   |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>IR 1.2.3.1 From SO 2.2 Budget Committee's deliberation on budget legislation is improved.</b>  |   |               |       |               |        |        |        |        |
| 1. National Budget submitted to Parliament provides more detail.<br><br>Source: RADA-Budget Committee   | Definition: budget document includes detailed budget justifications by ministry and major program<br><br>Unit: Yes/No                             | 1995          | No    | No            |        | Yes    | Yes    | Yes    |
| <b>IR 1.2.3.2 From SO2.2 Budget Committee's work becomes more transparent (for the public &amp; other government offices).</b>                |   |               |       |               |        |        |        |        |
| 1. Committee Sessions are open to government officials at local and national levels on an increasing basis.<br><br>Source: DST project report | Definition:<br><br>Unit: percent of sessions open   | 1995          | 0     | 0             |        | 10     | 25     | 50     |
| <b>IR 1.2.3.3 Banking and Finance Committee's deliberation on tax legislation is strengthened.</b>  |   |               |       |               |        |        |        |        |
| 1. Committee completes action on draft tax law revisions and transmits them to the Rada for passage.<br><br>Source: Rada/STI                  | Definition: Committee reviews legal provisions in deciding on elements of the single tax code<br><br>Unit: number of revised tax laws transmitted | 1995          | 0     | 2             |        | 3      |        |        |

**Ukraine: SO 1.3: Accelerated development and growth of private enterprises.**

**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEARS |        |        |        |        |
|--|--|---------------|-------|----------------|--------|--------|--------|--------|
|  |  | YEAR          | VALUE | 1996           |        | 1997   | 1998   | 1999   |
|  |  |               |       | Target         | Actual | Target | Target | Target |
| <b>Strategic Objective 1.3: Accelerated development and growth of private enterprises.</b>               |  |               |       |                |        |        |        |        |
| 1. Amount of direct foreign investment in Ukraine.<br><br>Source: Ministry of Foreign Economic Relations | Definition: dollar value of annual direct foreign investment applications<br><br>Unit: \$ million                  | 1995          | 113   | TBD            |        | TBD    | TBD    | TBD    |
| 2. Number of new foreign joint ventures registered with State Tax Inspectorate.<br><br>Source: STI       | Definition: annual number of new foreign joint ventures registered with State Tax Inspectorate<br><br>Unit: number | 1995          | 50    | 100            |        | 200    | 400    | 700    |
| <b>IR 1.3.1: Free availability and flow of business-related information.</b>                             |  |               |       |                |        |        |        |        |
| 1. Circulation of top three business periodicals in Ukraine.<br><br>Source: periodical circulation       | Definition: number of printed copies<br><br>Unit: number of copies/subscriptions (000s)                            | 1996          | 165   | 165            |        | 205    | 250    | 260    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEARS |        |        |        |        |
|--|--|---------------|-------|----------------|--------|--------|--------|--------|
|  |  |               |       | 1996           |        | 1997   | 1998   | 1999   |
|  |  | YEAR          | VALUE | Target         | Actual | Target | Target | Target |
| <b>IR 1.3.1.1: Business networks expanded.</b>   |  |               |       |                |        |        |        |        |
| 1. Number of subscribers/programs/organizations involved.<br><br>Source: DAI   | Definition: number of subscribers to business network program of NewBizNet<br><br>Unit: number                       | 1996          | 290   | 1,000          |        | 3,000  | 5,000  | 7,000  |
| 2. Number of businesses assisted through networks.<br><br>Source: DAI  | Definition: number of non-subscribing businesses who receive assistance through business network<br><br>Unit: number | 1996          | 400   | 600            |        | 1,200  | 1,200  | 1,200  |
| <b>IR 1.3.1.2: Competitive, organized trading exists in key markets.</b>   |  |               |       |                |        |        |        |        |
| 1. Number of real estate associations in key locations.<br><br>Source: Ukrainian Realtors Association<br>Ukrainian Society of Appraisers | Definition: local real estate associations in 5 key cities/markets<br><br>Unit: cumulative number of associations    | 1995          | 4     | 6              |        | 10     | 15     | 20     |

186

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA   |             | CALENDAR YEARS |        |               |                |                |
|---|--|---|-------------|----------------|--------|---------------|----------------|----------------|
|   |  | YEAR  | VALUE       | 1996           |        | 1997          | 1998           | 1999           |
|   |  |   |             | Target         | Actual | Target        | Target         | Target         |
| 2. Number of members in real estate association.<br><br>Source: Ukrainian Realtors Association<br>Ukrainian Society of Appraisers       | Definition: dues-paying members<br><br>Unit: cumulative members  | 1995  | 25          | 35             |        | 55            | 80             | 100            |
| 3. Volume of agricultural commodities traded on organized exchanges.<br><br>Source: Exchanges & USAID contractors, Chemonics, Agro News | Definition: average weekly volume for wheat, barley, oil seeds and sugar<br><br>Wheat:<br>Barley:<br>Sunflower seeds:<br>Sunflower meal:<br>Sugar:<br><br>Unit: Metric Tons/week | 4/3/96<br><br>1996  |             | 10/15/96       |        |               |                |                |
|   |  |   | 11,330      | 15,000         |        | 25,000        | 35,000         | 55,000         |
|   |  |   | 10,000      | 15,000         |        | 19,000        | 25,000         | 30,000         |
|   |  |   | 19,339      | 20,000         |        | 25,000        | 25,000         | 30,000         |
|   |  |   | 10,200      | 12,000         |        | 15,000        | 15,000         | 15,000         |
|   |  |   | 125         | 350            |        | 1,000         | 2,000          | 3,000          |
| <b>IR 1.3.2: Improved application of market-driven business skills.</b>   |  |   |             |                |        |               |                |                |
| 1. Land area using new technologies.<br><br>Source: CNFA & Ministry of Statistics   | Definition: percent of sown area using no till cultivation, new seed varieties and modern cultivators/harvesters.<br><br>Unit: percent   | 1995<br>No till:<br>Seeds:<br>Cultivators/<br>harvesters: | 5<br>2<br>1 | 7<br>5<br>5    |        | 10<br>10<br>7 | 15<br>15<br>10 | 25<br>25<br>15 |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEARS |        |        |        |        |
|---|--|---------------|-------|----------------|--------|--------|--------|--------|
|   |  |               |       | 1996           |        | 1997   | 1998   | 1999   |
|   |  | YEAR          | VALUE | Target         | Actual | Target | Target | Target |
| 2. Increased yields from land area using new technologies<br><br>Source: Ministry of Statistics | Definition: percent increase in tons per hectare over 1994 baseline<br><br>Unit: percent   | 1994          | 30    | 35             |        | 40     | 45     | 50     |
| 3. Independent efficiency/waste minimization organizations exist.<br><br>Source: contractors    | Definition: number of companies who perform waste efficiency/minimization audits<br><br>Unit: number   | 1996          | 0     | 0              |        | 10     | 12     | 12     |
| 4. Number of business service companies.<br><br>Source: Ministry of Economy, MinStat            | Definition: business service licensed to operate as defined by Ministries as percentage of all businesses licensed (Note: targets must wait for expected new registration regulations)<br><br>Unit: percent increase from baseline | 1996          | TBD   | TBD            |        | TBD    | TBD    | TBD    |
| <b>IR 1.3.2.1: Business training widely available.</b>  |  |               |       |                |        |        |        |        |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |         | CALENDAR YEARS |        |        |        |        |
|--|--|---------------|---------|----------------|--------|--------|--------|--------|
|  |  |               |         | 1996           |        | 1997   | 1998   | 1999   |
|  |  | YEAR          | VALUE   | Target         | Actual | Target | Target | Target |
| 1. Number of graduates/trainees.<br>Source: Ministry of Education  | Definition: number of MBA graduates yearly<br><br>Unit: number   | 1996          | 200     | 1,000          |        | 3,000  | 10,000 | 15,000 |
| <b>IR 1.3.3: Legal, regulatory and political environment conducive to sustainable enterprise growth.</b> |  |               |         |                |        |        |        |        |
| 1. Number of legally registered firms grows.<br>Source: Ministry of Statistics                           | Definition: yearly percent increase of registered firms over baseline<br><br>Unit: percent   | 1996          | 240,000 | 1996           |        | 10     | 15     | 20     |
| 2. Number of people employed in private SMEs.<br>Source: Ministry of Labor, Ministry of Statistics       | Definition: number of people employed full-time in SMEs<br><br>Unit: number  | 1995          | TBD     | TBD            |        | TBD    | TBD    | TBD    |
| <b>IR 1.3.3.1: International accounting standards utilized by enterprises.</b>                           |  |               |         |                |        |        |        |        |
| 1. Certified and dues paying members of the SRO.<br>Source: SRO  | Definition: accountants and auditors who have met professional certification requirements as defined by SRO<br><br>Unit: number of persons | 1995          | 0       | 20             |        | 70     | 200    | 400    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEARS |        |                |        |        |
|--|--|---------------|-------|----------------|--------|----------------|--------|--------|
|  |  |               |       | 1996           |        | 1997           | 1998   | 1999   |
|  |  | YEAR          | VALUE | Target         | Actual | Target         | Target | Target |
| 2. Number of companies listed on OTC market with financial statement conforming to IAS standards as defined by SCU.<br><br>Source: Securities Commission | Definition: number of OTC companies submitting financial statements that meet standards<br><br>Unit: number                                | 1995          | 0     | 25             |        | 75             | 125    | 200    |
| <b>IR 1.3.3.2: Commercial legal systems developed.</b>   |  |               |       |                |        |                |        |        |
| 1. Laws passed.<br><br>Source: Parliament  | Definition: list of laws TBD in 1997<br><br>Unit: number   | 1996          | None  | N/A            |        | list developed | 1      | TBD    |
| 2. Court Enforcement of standards defined by law.<br><br>Source: Highest Arbitration Court   | Definition: a court case in favor of complaint<br><br>Unit: Yes/No   | 1995          | No    | No             |        | No             | No     | Yes    |
| <b>IR 1.3.3.3: Business groups perform self-regulatory functions.</b>  |  |               |       |                |        |                |        |        |
| 1. Number of nationally registered business associations with formal SRO authority in these fields.<br><br>Source: SROs, Ministry of Economy             | Definition: number of national associations in fields of capital markets and accounting delegated SRO authority by GOU<br><br>Unit: number | 1995          | 0     | 3              |        | 4              | 5      | 5      |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEARS |        |        |        |        |
|--|---|---------------|-------|----------------|--------|--------|--------|--------|
|  |   |               |       | 1996           |        | 1997   | 1998   | 1999   |
|  |   | YEAR          | VALUE | Target         | Actual | Target | Target | Target |
| 2. Number of internationally recognized professional SROs.<br><br>Source: SROs | Definition: Accounting Associations and Capital Markets SROs<br><br>Unit: number        | 1995          | 0     | 4              |        | 5      | 5      | 5      |
| <b>IR 1.3.3.4: An open trade regime.</b>                                       |   |               |       |                |        |        |        |        |
| 1. Accession to World Trade Organization (WTO).<br><br>Source: WTO             | Definition: Ukraine is admitted to the WTO<br><br>Unit: Yes/No                          | 1995          | No    | No             |        | Yes    | N/A    | N/A    |
| 2. Compliance with WTO standards.<br><br>Source: WTO                           | Definition #1: laws brought into compliance with WTO codes                              | 1995          | No    | No             |        | Yes    | N/A    | N/A    |
|  | Definition #2: practices brought into compliance with WTO standards<br><br>Unit: Yes/No | 1995          | No    | No             |        | No     | Yes    | N/A    |

161

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT                    | BASELINE DATA |       | CALENDAR YEARS |        |        |        |        |
|---|---|---------------|-------|----------------|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996           |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target         | Actual | Target | Target | Target |
| <b>IR 1.3.3.5: Corporate governance standards followed.</b>   |   |               |       |                |        |        |        |        |
| 1. Number of corporations that file quarterly reports with Securities and Stock Market State Commission (SSMSC).<br><br>Source: SSMSC | Definition: quarterly corporate reports<br><br>Unit: number     | 1996          | 0     | 10             |        | 50     | 100    | 200    |
| <b>IR 1.3.3.6: Improved anti-monopoly enforcement.</b>  |   |               |       |                |        |        |        |        |
| 1. Increased case resolutions with market-oriented results (preserving competition).<br><br>Source: AMC                               | Definition: illegal agreement cases decided<br><br>Unit: number | 1995          | 31    | 50             |        | 100    | 110    | 120    |

192

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEARS  |        |        |        |        |
|---|---|---------------|-------|---|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996  |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target  | Actual | Target | Target | Target |
| 2. Increased transparency of procedures and decision-making.<br><br>Source: AMC                             | Definition #1: institutionalize collegial decision-making (i.e., 3 commissioners decide together)<br><br>Unit: Yes/No | 1995          | No    | No  |        | Yes    | N/A    | N/A    |
|   | Definition #2: case assignments made on an established basis by an Office of the Secretary<br><br>Unit: Yes/No        | 1995          | No    | No  |        | Yes    | N/A    | N/A    |
| <b>IR 1.3.3.7: Functioning bankruptcy system, including financial restructuring.</b>                        |   |               |       |   |        |        |        |        |
| 1. Bankruptcy system provides for restructuring troubled entities.<br><br>Source: Highest Arbitration Court | Definition: financial restructurings completed<br><br>Unit: number of restructurings                                  | 1995          | 0     | (bankruptcy law amended to provide for financial restructuring) |        | 2      | 10     | 50     |
| 2. Independent professionals assist bankruptcy courts.<br><br>Source: Highest Arbitration Court             | Definition: independent licensed trustees and liquidators, appointed, trained and compensated<br><br>Unit: number     | 1995          | 0     | 0 (law enacted)   |        | 25     | 100    | 250    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEARS       |        |        |        |        |
|---|---|---------------|-------|----------------------|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996                 |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target               | Actual | Target | Target | Target |
| 3. Improved bankruptcy system adopts basic western standards.<br><br>Source: Parliament<br>Highest Arbitration Court                        | Definition: law and/or court procedures revised to incorporate basic western standards<br><br>Unit: Yes/No                | 1995          | No    | No (revisions begun) |        | Yes    | N/A    | N/A    |
| <b>IR 1.3.4: Selected interventions provide a "jump start" to increase firm-level investments, competition and productivity.</b>            |   |               |       |                      |        |        |        |        |
| 1. Number of firms that receive direct company-specific restructuring from USAID.<br><br>Source: IFC, IESC, Enterprise Restruct. Contractor | Definition: companies to whom USAID grantees/contractors provide intensive structured assistance<br><br>Unit: number      | 1994          | 60    | 80                   |        | 145    | 200    | 260    |
| <b>IR 1.3.4.1: Selected enterprises rationalized and restructured.</b>  |   |               |       |                      |        |        |        |        |
| 1. Collective farms restructured and rationalized.<br><br>Source: Ministry of Agriculture   | Definition: number of collective farms restructured into western style private enterprises<br><br>Unit: cumulative number | 1995          | 0     | 20                   |        | 200    | 1,000  | 3,000  |

767

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |        | CALENDAR YEARS |        |          |          |          |
|---|---|---------------|--------|----------------|--------|----------|----------|----------|
|   |   |               |        | 1996           |        | 1997     | 1998     | 1999     |
|   |   | YEAR          | VALUE  | Target         | Actual | Target   | Target   | Target   |
| <b>IR 1.3.4.2: Selected agricultural joint ventures created.</b>  |   |               |        |                |        |          |          |          |
| 1. Number of new joint ventures created.  | Definition: joint US/Ukr JV Firms Service Centers: Processing enterprises:          | 1995          | 4<br>0 | 7<br>5         |        | 10<br>10 | 13<br>15 | 16<br>20 |
| Source: implementor of FSRP   | Unit: number  |               |        |                |        |          |          |          |
| <b>IR 1.3.4.3: Venture capital investment supplied .</b> (Note: Projections are provided by the WestNIS Enterprise Fund in their Semi-Annual Review May 1996 submission)  |   |               |        |                |        |          |          |          |
| 1. Amount of venture equity or debt supplied to Ukrainian businesses.   | Definition: \$ investment in Ukrainian companies by WestNIS Enterprise Fund         | 1995          | 0      | 27             |        | 30       | 25       | 25       |
| Source: WestNIS Enterprise Fund   | Unit: \$ million  |               |        |                |        |          |          |          |
| Note: Due to the unique nature of the Enterprise Fund project, the Mission believes it cannot be held accountable for results/impacts the WNIS Fund is expected to achieve. The Mission, therefore, would not consider the results/impacts expected from the Funds to be part of the Management Contract. |   |               |        |                |        |          |          |          |
| <b>IR 1.3.4.4: Private sector contracting of selected former state functions.</b>   |   |               |        |                |        |          |          |          |
| 1. Private housing maintenance contracts.   | Definition: municipal-level private maintenance contracts for residential buildings | 1995          | 4      |                | 8      | 25       | 50       | 100      |
| Source: State Committee on Housing & Municipal Economy  | Unit: number of contracts   |               |        |                |        |          |          |          |

195

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEARS |        |        |        |        |
|--|--|---------------|-------|----------------|--------|--------|--------|--------|
|  |  |               |       | 1996           |        | 1997   | 1998   | 1999   |
|  |  | YEAR          | VALUE | Target         | Actual | Target | Target | Target |
| <b>1.3.4.5: Increased investment in environmentally sound small business (including eco-tourism).</b>                                |  |               |       |                |        |        |        |        |
| 1. Environmentally sound businesses increased.<br><br>Source: contractor   | Definition: number of businesses who feature environmentally-sensitive processes in their operations<br><br>Unit: number | 1996          | 0     | 0              |        | 12     | 15     | 20     |
| <b>IR 1.3.5: SO 1.1 Transfer of state owned assets.</b><br><b>SO 1.4 Private financial sector.</b><br><b>SO 1.2 Fiscal policies.</b> |  |               |       |                |        |        |        |        |

**Ukraine: SO 1.4**

**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS** (All statistics end-of-year unless otherwise indicated)

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|--|--|---------------|-------|--------|--------|--------|--------|--------|
|  |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|  |  |               |       | Target | Actual | Target | Target | Target |
| <b>Strategic Objective 1.4: A more competitive and market responsive private financial sector.</b>   |  |               |       |        |        |        |        |        |
| 1. Increased private sector investment.<br><br>Source: "Ukrainian Economic Trends", European Center of Macroeconomic Analysis of Ukraine, EC TACIS | Definition: share of total commercial bank credits to private enterprises and households as a percentage of total bank credits<br><br>Unit: percentage | 1995          | 36    | 40     |        | 45     | 50     | 55     |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA  |       | 1996   |        | 1997   | 1998   | 1999   |
|---|--|--|-------|--------|--------|--------|--------|--------|
|   |  | YEAR   | VALUE | Target | Actual | Target | Target | Target |
|   |  | <b>IR 1.4.1: Market-oriented private banking sector developed.</b> |       |        |        |        |        |        |
| 1. Capital of country's largest ten private banks increases.<br><br>Source: NBU: Bank Supervision | Definition: total assets of largest 10 private sector banks as a percentage of assets of 5 former & current state-owned banks<br><br>Denominator: Oschadny, EXIM (Ukraine), Rominvest, Ukraina, Ukrsots.<br>Numerator: Privat, PUNB, Grado, UKRIN, INKO, Vidrodzhennia, AVAL, Brok, BiznesBank, ZUKB<br><br>Unit: percentage | 1995   | 35    | 41     |        | 50     | 58     | 68     |
| <b>IR 1.4.1.1: Financial infrastructure promotes confidence in the banking system.</b>            |  |  |       |        |        |        |        |        |
| 1. Commercial banks meeting minimal capital requirements<br><br>Source: NBU: Bank Supervision     | Definition: percentage of banks meeting NBU 5% capital to assets requirement<br><br>Unit: percentage   | 1995   | 89    | 92     |        | 94     | 96     | 97     |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |         |        |        |        |        |
|--|--|---------------|-------|---------|--------|--------|--------|--------|
|  |  | YEAR          | VALUE | 1996    |        | 1997   | 1998   | 1999   |
|  |  |               |       | Target  | Actual | Target | Target | Target |
| <b>IR 1.4.1.1.1: Modern, standardized accounting system developed.</b>   |  |               |       |         |        |        |        |        |
| 1. International Accounting Standards (IAS) adopted by commercial banks<br><br>Source: NBU & IMF advisor           | Definition: conversion to IAS<br><br>Unit: Yes/No  | 1995          | No    | No      |        | Yes    | Yes    | Yes    |
| <b>IR 1.4.1.1.2: Improved banking supervision capacity.</b>  |  |               |       |         |        |        |        |        |
| 1. Systematic full examination of commercial banks by NBU's Bank Supervision Unit<br>Source: NBU: Bank Supervision | Definition: banks examined annually<br><br>Unit: percentage of all banks                                 | 1995          | 0     | 5       |        | 10     | 12     | 15     |
| 2. Effective off-site examination system used<br><br>Source: NBU: Bank Supervision, (Head of Office Unit)          | Definition: a functioning early warning system with analytic reports<br><br>Unit: none/partial/full      | 1995          | none  | partial |        | full   | full   | full   |
| <b>IR 1.4.1.1.3 Institutionalized loan security system developed.</b>  |  |               |       |         |        |        |        |        |
| 1. Security interest filing exists<br><br>Source: Ukrainian Bankers Association                                    | Definition: priority of security interests determined by filing in National Registry<br><br>Unit: Yes/No | 1995          | No    | No      |        | No     | Yes    | Yes    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|--|--|---------------|-------|--------|--------|--------|--------|--------|
|  |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|  |  |               |       | Target | Actual | Target | Target | Target |
| <b>IR 1.4.1.1.4: Supporting legal infrastructure developed.</b>  |  |               |       |        |        |        |        |        |
| 1. Law defining banks' business and powers passed<br><br>Source: NBU   | Definition: Law on Banks and Banking passed<br><br>Unit: Yes/No                                    | 1995          | No    | No     |        | Yes    | Yes    | Yes    |
| <b>IR 1.4. 1.1.5: Comprehensive electronic payment system established.</b>                                     |  |               |       |        |        |        |        |        |
| 1. Increased applications of electronic funds payment system.<br><br>Source: NBU                               | Definition: number of services using electronic means<br><br>Unit: number                          | 1995          | 1     | 1      |        | 2      | 3      | 3      |
| <b>IR 1.4.1.2: Increase in savings mobilization through the banking system.</b>                                |  |               |       |        |        |        |        |        |
| 1. Increase in savings mobilization through the banking system.<br><br>Source: NBU Bulletin Q1 1996, p.6, p.26 | Definition: currency plus demand plus time deposits as a percentage of GDP<br><br>Unit: M2/GDP (%) | 1995          | 13    | 15     |        | 18     | 21     | 26     |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|---|--|---------------|-------|--------|--------|--------|--------|--------|
|   |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|   |  |               |       | Target | Actual | Target | Target | Target |
| <b>IR 1.4.1.3: Increased competition in the banking system.</b>   |  |               |       |        |        |        |        |        |
| 1. Fall in intermediation spread.<br><br>Source: NBU Bulletin QI 1996, p.29   | Definition: bank lending interest rate minus bank borrowing interest rate<br><br>Unit: percentage  | 1995          | 61    | 51     |        | 44     | 37     | 29     |
| <b>IR 1.4.1.4: Increased number of bank products offered.</b>   |  |               |       |        |        |        |        |        |
| 1. Increase in the number of bank products offered, e.g., home equity loans, savings accounts, home finance, etc.<br><br>Source: Ukrainian Bankers' Association | Definition: types of services available: 1995 - commercial lending, commercial deposits & personal savings only available.<br><br>Unit: number | 1995          | 3     | 4      |        | 6      | 8      | 10     |
| <b>IR 1.4.1.2/3/4.1: Cadre of professional bankers developed.</b>   |  |               |       |        |        |        |        |        |
| 1. Self-sustaining professional training capacity<br><br>Source: Ukrainian Center for Training of Banks, Barents  | Definition: non-donor funding as a percentage of total costs for Ukrainian Central Banks<br><br>Unit: percentage                               | 1995          | 3     | 10     |        | 25     | 50     | 100    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |        |        |        |        |        |
|---|---|---------------|-------|--------|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target | Actual | Target | Target | Target |
| <b>IR 1.4.2: Transparent and open securities system established.</b>  |   |               |       |        |        |        |        |        |
| <p>1. Securities market capital as a percentage of GDP (capitalization ratio)</p> <p>Source: Ministry of Finance, Ministry of Statistics, SPF, Securities Exchange Commission, World Bank</p> | <p>Definition: total number of shares of open joint stock companies issued to public by any issuer at stated nominal value, divided by GDP</p> <p>(Note: The above definition excludes Governmental Treasury Obligations. Nominal value may be above or below market value for every security issued, whereas the availability of market prices for all such shares will not be complete. As trading commences and more reliable market prices become available for most liquid securities, you can replace the nominal values of such shares with market values.)</p> <p>Unit: percent</p> | 1995          | 0     | TBD    |        | TBD    | TBD    | TBD    |
| <b>IR 1.4.2.1: A Securities Regulatory Commission is empowered and overseeing capital market activities.</b>  |   |               |       |        |        |        |        |        |
| <p>1. Decrees issued authorizing/centralizing oversight responsibilities to the SRC</p> <p>Source:</p>  | <p>Definition: presidential decree /or legislation</p> <p>Unit: Yes/No</p>  | 1995          | No    | Yes    |        | N/A    | N/A    | N/A    |

202

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |        |        |        |        |        |
|--|---|---------------|-------|--------|--------|--------|--------|--------|
|  |   | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|  |   |               |       | Target | Actual | Target | Target | Target |
| 2. Enforcement/corrective actions taken.<br><br>Source:  | Definition:<br><br>Unit: Yes/No   | 1995          | No    | No     |        | Yes    | Yes    | Yes    |
| <b>IR 1.4.2.2: Self-regulating organizations of market participants authorized and effective.</b>    |   |               |       |        |        |        |        |        |
| 1. Number of SROs licensed by SRC.<br><br>Source: SRC, SROs  | Definition: cumulative number of capital market self-regulatory organizations whose charter is approved and whose organization is given SRC license<br><br>Unit: number | 1995          | 0     | 2      |        | 3      | 3      | 3      |
| 2. Number/percentage of market participating companies that belong to SROs.<br><br>Source: SRC, SROs | Definition: brokers/dealers, investment funds who are member of their respective SRO<br><br>Unit: percent   | 1995          | 0     | 40     |        | 80     | 100    | 100    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |        |        |        |        |        |
|---|---|---------------|-------|--------|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target | Actual | Target | Target | Target |
| <p>3. SROs take disciplinary actions against members</p> <p>Source: SRC, SROs</p> | <p>Definition: SROs performing member inspections or reviews, and engaging indisiplinary or other corrective actions regarding members</p> <p>(Note: Performance indicator would include SROs with active arbitration forums for dispute resolution.)</p> <p>Unit: number</p> | 1995          | 0     | 1      |        | 2      | 3      | 3      |
| <b>IR 1.4.2.3: Active and open trading of shares.</b>                             |   |               |       |        |        |        |        |        |
| <p>1. OTC share system functioning</p> <p>Source: OTC exchange</p>                | <p>Definition: exchanges take place</p> <p>Unit: Yes/No</p>   | 1995          | No    | Yes    |        | Yes    | Yes    | Yes    |
| <p>2. Volume of shares traded (value and number)</p> <p>Source: OTC exchange</p>  | <p>Definition:</p> <p>Unit: dollars (million)</p>   | 1995          | 0     | 5      |        | 7      | 8      | 10     |

702

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|---|--|---------------|-------|--------|--------|--------|--------|--------|
|   |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|   |  |               |       | Target | Actual | Target | Target | Target |
| 3. Number of companies using independent share registries.<br><br>Source: share registries  | Definition: number of privatized companies whose shareholders list is handled by independent share registries<br><br>Unit: number of companies | 1995          | 0     | 1000   |        | 2000   | 5000   | 6000   |
| <b>IR 1.4.2.4: Companies raising capital through organized exchanges.</b>   |  |               |       |        |        |        |        |        |
| 1. Number of registered offerings to raise new capital for OJSCs.<br><br>Source: MinFin, MinStat, SPF, SEC  | Definition: registered offerings filed by OJSCs outside the privatization process<br><br>Unit: number  | 1995          | 0     | 0      |        | 2      | 3      | 4      |
| Note: The Privatization Commission must make the same filing as OJSCs when offering shares for sale to the public through the SPF privatization process. Thus, registered offerings by filed directly the OJSCs themselves would yield information related solely to raising new capital for the OJSCs. |  |               |       |        |        |        |        |        |

205

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|--|--|---------------|-------|--------|--------|--------|--------|--------|
|  |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|  |  |               |       | Target | Actual | Target | Target | Target |
| <p>2. Capital raised through registered offerings shares by OJSCs.</p> <p>Source: MinFin, MinStat, Securities Commission</p> | <p>Definition: number of shares sold by OJSCs multiplied by their nominal value</p> <p>Note: Market value of shares sold through registered offerings apparently is not reported - only the nominal value of shares sold by OJSCs</p> <p>Unit: \$ (in 000's)</p> | 1995          | 0     | 0      |        | 500    | 1,000  | 2,000  |
| <b>IR 1.4.3: Accelerated development and growth of private enterprises.</b>  |  |               |       |        |        |        |        |        |
| See SO 1.3   |  |               |       |        |        |        |        |        |
| <b>IR 1.4.4: Government macro and structural adjustment policies support market reform.</b>                                  |  |               |       |        |        |        |        |        |
| <p>1. Adherence of the GOU to IMF quantitative performance criteria.</p> <p>Source: IMF resident representative</p>          | <p>Definition: disbursement of IMF funds</p> <p>Unit: Yes/No (December)</p>  | 12/95         | Yes   | Yes    |        | Yes    | Yes    | Yes    |

**Ukraine: SO 1.5**

**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |            | CALENDAR YEAR |        |          |          |          |
|---|--|---------------|------------|---------------|--------|----------|----------|----------|
|   |  |               |            | 1996          |        | 1997     | 1998     | 1999     |
|   |  | YEAR          | VALUE      | Target        | Actual | Target   | Target   | Target   |
| <b>SO 1.5: A more economically sustainable and environmentally sound energy sector.</b>   |  |               |            |               |        |          |          |          |
| <p>1. Elimination of budgetary subsidies for power and energy resources production.</p> <p>Sources: government budget line items, Ministry of Finance (Minfin), Ministry of Economy (Minecon), IMF, World Bank (WB)</p> | <p>Definition: no central budgetary line items:</p> <p>(a) power sector<br/>(b) energy resources</p> <p>Unit: Yes/No</p> | 1995<br>1995  | Yes<br>Yes | No<br>No      |        | No<br>No | No<br>No | No<br>No |
| <p>2. Reduce foreign energy debts (to Russia, Turkmenistan, etc.).</p> <p>Source: Minfin, Minecon, Ministry of Statistics (Minstat), IMF, WB</p>  | <p>Definition: reduce outstanding debts</p> <p>Unit: \$ billions</p>   | 1995          | 7.5        | TBD           |        | 7        | 6.5      | 6        |

207

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT                                       | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|--|---------------|-------|---------------|--------|--------|--------|--------|
|  |  |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |  | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>IR1.5.1: Competitive, financially sustainable power delivery system.</b>  |  |               |       |               |        |        |        |        |
| 1. Increased revenue collection.<br><br>Source: annual/quarterly financial reports of GENCOs, LECs, and other power sector enterprises; WB, and/or experts | Definition: actual revenue collected divided by what is owed<br><br>Unit: percent  | 1995          | 50    | 65            |        | 75     | 85     | 95     |
| 2. \$ of private investment in sector.<br><br>Source: WB analysis  | Definition: investments<br><br>Unit: \$ dollars millions                           | 1995          | 0     | 0             |        | 200    | 500    | 750    |
| <b>IR1.5.1.1: Fully functional, independent National Electricity Regulatory Commission (NERC).</b>   |  |               |       |               |        |        |        |        |
| 1. Tariffs established and continued by NERC on a cost plus basis.<br><br>Source: NERC decrees, WB analysis  | Definition: wholesale/retail competitive and cost plus tariffs<br><br>Unit: Yes/No | 1995          | No    | No            |        | Yes    | Yes    | Yes    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
|  |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <p>2. Licenses issued to all relevant entities.</p> <p>Source: NERC decrees, WB</p>        | <p>Definition: generating companies, local electric companies, regional dispatch centers</p> <p>Unit: cumulative number of licenses</p> | 1995          | 0     | 20            |        | 45     | 55     | 60     |
| <b>IR1.5.1.2: Commercially viable independent generating companies.</b>                    |   |               |       |               |        |        |        |        |
| <p>1. Increased operating efficiency of GENCO.</p> <p>Sources: GENCOs, NERC, Minenergo</p> | <p>Definition: better resource management</p> <p>Unit: production cost (per MWH)</p>  | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |

209

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
|   |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| 2. Repayment of debt through forbearance agreements.<br><br>Sources: Minenergo  | Definition: debt collected in cash<br><br>Unit: percent   | 1995          | TBD   | 10            |        | 40     | 70     | 90     |
| 3. Increased creditworthiness of GENCOs.<br><br>Sources: GENCO, NERC, Minenergo | Definition: capital investments required to run power plants<br><br>Unit: \$ millions values of loans to GENCOs borrowed from private sectors | 1995          | TBD   | 10            |        | 30     | 60     | 200    |
| <b>IR1.5.1.3: Commercially viable local electric supply companies.</b>          |   |               |       |               |        |        |        |        |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|--|---------------|-------|---------------|--------|--------|--------|--------|
|  |  |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |  | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <p>1. Comprehensive accounting reforms introduced and implemented.</p> <p>Source: LEC records, Minenergo</p> | <p>Definition: Western accounting and budgeting practices implemented</p> <p>Unit: number of LECs (USAID supports 12 LECs)</p> | 1995          | 0     | 1             |        | 6      | 9      | 12     |
| <p>2. Provision of Supply and Demand Side Resource.</p> <p>Source: Minenergo, WB</p>                         | <p>Definition: availability of demand side measures expanded</p> <p>Unit: number of suppliers offering DSM resources</p>       | 1995          | 0     | 1             |        | 2      | 3      | 4      |
| <p>3. Improved collections.</p> <p>Source: LEC reports, WB</p>   | <p>Definition: increased payment collections from customers</p> <p>Unit: percent of customers making cash payments</p>         | 1995          | TBD   | 30            |        | 45     | 60     | 80     |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
|   |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>1.5.1.4: Fully functioning Energomarket entity.</b>  |   |               |       |               |        |        |        |        |
| 1. Ability to carry out duties.<br><br>Sources: Energomarket records, World Bank  | Definition: increase in number of staff, percent of staffing needs filled, time needed to settle accounts<br><br>Unit: Yes/No                           | 1995          | No    | Yes           |        | Yes    | Yes    | Yes    |
| 2. Improved financial flows through the power sector.<br><br>Sources: Energomarket, GENCO, LEC, Minenergo data on financial flows | Definition: reduction in percent of receivables left uncollected from LECs; reduction in percent of payables left unpaid to GENCOs<br><br>Unit: percent | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| <b>IR1.5.2: More stable fuel supply</b>   |   |               |       |               |        |        |        |        |

212

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
|   |  |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |  | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <p>1. Adequate fuel reserves at primary plants.</p> <p>Source: GENCOs, Minenergo data</p> | <p>Definition: average percent of 30 days' supply at 17 primary plants maintained (from quarterly readings)</p> <p>Unit: percent</p> | 1995          | 30    | 50            |        | 75     | 85     | 90     |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
|   |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>IR1.5.2.1: Improved fuel supply and distribution.</b>  |   |               |       |               |        |        |        |        |
| 1. Tons of coal from (x) selected coal mines sold and covered by payment.<br><br>Source: coal mines   | Definition: metric tons from list of mines TBD<br><br>Unit: number of paying contracts                        | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| 2. Sale of cubic meters of coal bed methane for energy production.<br><br>Source:   | Definition: alternative fuel source<br><br>Unit: TBD  | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| 3. Coal pricing and distribution system replaced by a market-based one where all coal is sold through long-term contracts or spot market.<br><br>Source: Ministry of Coal, WB | Definition: commercial coal contracting through new arrangements<br><br>Unit: price per Btu of Ukrainian coal | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |

712

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT                    | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
|   |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>IR1.5.2.2: Improved regulatory policy framework to increase investment.</b>                      |   |               |       |               |        |        |        |        |
| 1. Improved legislation on private investments.<br><br>Sources: Ukrainian law, governmental decrees | Definition: investment legislation improves<br><br>Unit: Yes/No | 1995          | No    | No            |        | No     | Yes    | Yes    |
| 2. \$ private investments in fuel production.<br><br>Source: WB, Ministry of Coal, Minstat          | Definition: increase investments<br><br>Unit: \$ millions       | 1995          | TBD   | 5             |        | 45     | 95     | 150    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT                      | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
|  |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>IR1.5.2.3: Improved financial terms for fuel purchase.</b>  |   |               |       |               |        |        |        |        |
| 1. Expansion of available credit lines from private sector.<br><br>Source: Minenergo, Ministry of Coal, GENCOs, LECs | Definition: terms of credit available<br><br>Unit: number of days | 1995          | 30    | 60            |        | 90     | 180    | 360    |
| <b>IR1.5.2.4: Coal sector restructured to increase efficiency.</b>   |   |               |       |               |        |        |        |        |
| 1. Reduction in government subsidies for coal production.<br><br>Sources: WB, IMF, Ministry of Coal, Minfin          | Definition: self-sustained production<br><br>Unit: \$ millions    | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |

2/16

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT                             | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|--|---------------|-------|---------------|--------|--------|--------|--------|
|  |  |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |  | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| 2. % of commercially viable mines.<br>Source: Ministry of Coal, WB                             | Definition: percent of cost-productive coal mines<br><br>Unit: percent   | 1995          | 30    | 35            |        | 40     | 45     | 50     |
| <b>IR1.5.3: Environmental, economic and social consequences of Chernobyl accident reduced.</b> |  |               |       |               |        |        |        |        |
| 1. GOU costs of social impact<br>Source: GOU   | Definition: decrease in percent of GDP<br><br>Unit: percent              | 1996          | TBD   | N/A           |        | TBD    | TBD    | TBD    |
| <b>IR1.5.3.1: Environmentally friendly efficiency in energy consumption increased.</b>         |  |               |       |               |        |        |        |        |
| 1. Reduced energy consumption per capita.<br>Source: project reports                           | Definition: decrease in energy consumption per capita<br><br>Unit: ratio | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
|  |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>1.5.3.1.1: Increased public and private efficiency in energy use.</b>                             |   |               |       |               |        |        |        |        |
| 1. Use of energy efficient technologies.<br><br>Source: project reports                              | Definition: energy efficient technologies equipment for water utilities, iron and steel<br><br>Unit: number | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| <b>IR1.5.3.1.2: Increased domestic production of energy efficient technologies.</b>                  |   |               |       |               |        |        |        |        |
| 1. Increased domestic production of energy efficient electric motors.<br><br>Source: project reports | Definition: energy efficient electric motors<br><br>Unit: number  | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
|   |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>IR1.5.3.1.3: Increased public awareness and education.</b> |   |               |       |               |        |        |        |        |
| 1. Public awareness and education.<br>Source: survey          | Definition: increased percentage of public awareness and education re: benefits of energy conservation<br><br>Unit: percent (%) | 1995          | TBD   | TBD           |        | 20     | 50     | TBD    |
| <b>IR1.5.3.2: Environmental hazard reduced.</b>               |   |               |       |               |        |        |        |        |
| 1. Radioactive waste safely contained.<br>Source: DOE         | Definition: radioactive waste<br><br>Unit: tba DOE  | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |

219

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT    | BASELINE DATA |       | CALENDAR YEAR |        |                |        |        |
|--|---|---------------|-------|---------------|--------|----------------|--------|--------|
|  |   |               |       | 1996          |        | 1997           | 1998   | 1999   |
|  |   | YEAR          | VALUE | Target        | Actual | Target         | Target | Target |
| <b>IR1.5.3.2.1: Ecologically sound sarcophagus built as defined in G7 MOU.</b> |   |               |       |               |        |                |        |        |
| 1. Sarcophagus built.<br>Source: DOE and observation                           | Definition: sarcophagus built<br>Unit: Yes/No   | 1996          | No    | TBD (DOE)     |        | TBD            | TBD    | TBD    |
| <b>IR1.5.3.2.2: Chernobyl nuclear power plant decommissioned per G7 MOU.</b>   |   |               |       |               |        |                |        |        |
| 1. CNPP decommissioned.<br>Source: DOE   | Definition: CNPP decommissioned<br>Unit: Yes/No | 1996          | No    | N/A           |        | N/A            | N/A    | N/A    |
|  |   |               |       |               |        | (Closing 2000) |        |        |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|--|---------------|-------|---------------|--------|--------|--------|--------|
|  |  |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |  | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>IR1.5.3.3: Social impact of closing Chernobyl reduced.</b>                    |  |               |       |               |        |        |        |        |
| 1. Number of existing CNPP employees re-employed.<br><br>Source: project reports | Definition: CNPP employees<br><br>Unit: number | 1996          | 0     | TBD           |        | TBD    | TBD    | TBD    |

**Ukraine: SO 2.1**

**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|---|--|---------------|-------|--------|--------|--------|--------|--------|
|   |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|   |  |               |       | Target | Actual | Target | Target | Target |
| <b>Strategic Objective 2.1: Increased, better-informed citizens' participation in political and economic decision-making.</b> |  |               |       |        |        |        |        |        |
| 1. Percentage of citizens who understand the political process.<br><br>Source: USAID polling                                  | Definition: random sample, forced choice question about information respondent has about the democratic process between "great deal/fair amount" and "not very much /nothing at all"<br><br>Unit: percentage of "great deal/fair amount" | 1994          | 28    | 30     |        | 32     | 34     | 36     |
| 2. Number of citizens who participate in NGO activities.<br><br>Source: Ministry of Justice registration lists                | Definition: increase<br><br>Unit: percentage increase of population  | 1995          | TBD   | 2      |        | 2      | 2      | 2      |

222

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|--|--|---------------|-------|--------|--------|--------|--------|--------|
|  |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|  |  |               |       | Target | Actual | Target | Target | Target |
| <b>I.R.2.1.1: Increased confidence in the political process.</b>   |  |               |       |        |        |        |        |        |
| 1. Percentage of people who believe they are being represented by their elected officials.<br><br>Source: Democratic Initiatives polling | Definition: random sample, forced choice question about information respondent has about the democratic process<br><br>Unit: percentage  | 1995          | 12    | 14     |        | 16     | 20     | 35     |
| 2. Public believes that elections are free, fair and transparent<br><br>Source: USAID polling  | Definition: random sample, forced choice question on whether some fraud occurred during Presidential elections: "fraud occurred" vs "free and fair"<br><br>Unit: percentage of "free and fair" | 1994          | 40    | 42     |        | 44     | 46     | 49     |
| <b>I.R.2.1.1.1: People believe that laws are consistently enforced regardless of political influence.</b>                                |  |               |       |        |        |        |        |        |
| 1. Citizens who believe that laws are consistently enforced.<br><br>Source: USAID polling  | Definition: Yes/No question<br><br>Unit: percentage increase of Yes  | 1996          | N/A   | 5      |        | 5      | 5      | 5      |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |                               |        |        |        |        |        |
|---|--|---------------|-------------------------------|--------|--------|--------|--------|--------|
|   |  |               |                               | 1996   |        | 1997   | 1998   | 1999   |
|   |  | YEAR          | VALUE                         | Target | Actual | Target | Target | Target |
| <b>I.R.2.1.1.1.1: Citizens and NGOs successfully advocate on behalf of citizen interests.</b>   |  |               |                               |        |        |        |        |        |
| 1. Number of NGOs representing women's issues.<br><br>Source: Ministry of Justice database  | Definition: number of NGOs representing women's issues<br><br>Unit: number   | 1996          | 50<br>(Counter part database) | 60     |        | 70     | 75     | 80     |
| <b>I.R.2.1.1.1.2: Citizenry aware of rights.</b>  |  |               |                               |        |        |        |        |        |
| 1. Citizens aware of basic human and civil rights.<br><br>Source: USAID polling   | Definition: random sample, agree/disagree choice for "I don't have enough information about my rights with regard to authorities"<br><br>Unit: percentage of "disagrees" | 1994          | 14                            | 15     |        | 16     | 17     | 18     |
| <b>I.R. 2.1.1.2: Citizenry influence the political process.</b>   |  |               |                               |        |        |        |        |        |
| 2. Draft national legislative initiatives introduced by legislative branch in which there was citizen participation in the deliberative process.<br><br>Source: USAID | Definition: drafts presented to Supreme Rada<br><br>Unit: number of drafts   | 1995          | 0                             | 1      |        | 3      | 10     | 20     |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |                     |        |        |        |        |
|--|---|---------------|-------|---------------------|--------|--------|--------|--------|
|  |   | YEAR          | VALUE | 1996                |        | 1997   | 1998   | 1999   |
|  |   |               |       | Target              | Actual | Target | Target | Target |
| <b>I.R. 2.1.1.2.1: More effective public action NGOs.</b>  |   |               |       |                     |        |        |        |        |
| 1. New federations, organizations, coalitions, etc. formed to promote/oppose specific policies/legislation.<br><br>Source: Ministry of Justice | Definition: number of NGOs registered with Ministry of Justice.<br><br>Unit: number of NGOs                         | 1995          | 5000  | 5250                |        | 5500   | 5700   | 5900   |
| <b>I.R. 2.1.1.2.1.1: New NGO law passed in Rada.</b>   |   |               |       |                     |        |        |        |        |
| 1. Law passed<br><br>Source: Rada Gazette  | Definition:<br><br>Unit: No/Proposal/Yes  | 1995          | No    | proposal            |        | Yes    | N/A    | N/A    |
| <b>I.R. 2.1.1.3: Elections are free and fair.</b>  |   |               |       |                     |        |        |        |        |
| 1. Rating of elections/referenda as free and fair by local and international monitors.<br><br>Source: International monitors and poll watchers | Definition: international monitor criteria & congruency check of poll count vs official results<br><br>Unit: Yes/No | 1994          | Yes   | Yes<br>(referendum) |        | N/A    | Yes    | Yes    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|---|--|---------------|-------|--------|--------|--------|--------|--------|
|   |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|   |  |               |       | Target | Actual | Target | Target | Target |
| <b>I.R. 2.1.1.3.1: Informed electorate.</b>   |  |               |       |        |        |        |        |        |
| 1. Voter knowledge of political party platforms.<br><br>Source: Survey  | Definition: knowledge test<br><br>Unit: average percentage score                                 | 1995          | 0     | 30     |        | N/A    | N/A    | 50     |
| <b>I.R. 2.1.1.3.2: More transparent electoral administration.</b>   |  |               |       |        |        |        |        |        |
| 1. Electoral procedural violation complaints that are adjudicated.<br><br>Source: Central Election Commission | Definition: percentage increase of total complaints adjudicated<br><br>Unit: percentage increase | 1995          | TBD   | 3      |        | 5      | 10     | 10     |
| <b>I.R. 2.1.1.3.2.1: Poll monitoring capability created.</b>  |  |               |       |        |        |        |        |        |
| 1. Poll monitoring NGO established.<br><br>Source: Ministry of Justice, NGO registries                        | Definition: poll monitoring NGO registered<br><br>Unit: Yes/No                                   | 1995          | No    | No     |        | Yes    | N/A    | N/A    |
| <b>I.R. 2.1.1.3.3: Enforcement of party and electoral laws.</b>   |  |               |       |        |        |        |        |        |
| 1. Electoral and party legal violations complaints adjudicated.<br><br>Source: Central Election Commission    | Definition: percentage increase of complaints adjudicated<br><br>Unit: percentage increase       | 1997          | N/A   | N/A    |        | 50     | N/A    | 70     |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |          |        |                |        |        |
|--|---|---------------|-------|----------|--------|----------------|--------|--------|
|  |   | YEAR          | VALUE | 1996     |        | 1997           | 1998   | 1999   |
|  |   |               |       | Target   | Actual | Target         | Target | Target |
| <b>I.R. 2.1.1.3.3.1: New electoral and party laws passed by Rada.</b>  |   |               |       |          |        |                |        |        |
| 1. Elections law passed<br>Source: Rada Gazette  | Definition:<br>Unit: Yes/No/Proposed  | 1995          | No    | proposed |        | adopted<br>Yes | N/A    | N/A    |
| <b>I.R. 2.1.2: More unbiased public information available to citizens.</b>                                   |   |               |       |          |        |                |        |        |
| 1. Exposure to non-government and politically unaffiliated news sources<br>Source: independent media records | Definition: increase in hours of independent TV programming<br>Unit: hours per week   | 1996          | TBD   | 10       |        | 15             | 20     | 25     |
| <b>I.R. 2.1.2.1: Greater transparency in government decision-making.</b>                                     |   |               |       |          |        |                |        |        |
| 1. Draft legislation publicly available.<br>Source: USAID (contractors)                                      | Definition: for 50% of laws a copy is accessible in a public office in each (total=27) oblast at least 2hrs/wk<br>Unit: number of oblasts | 1995          | 0     | 10       |        | 27             | 27     | 27     |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |        |        |        |        |        |
|---|---|---------------|-------|--------|--------|--------|--------|--------|
|   |   | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|   |   |               |       | Target | Actual | Target | Target | Target |
| <b>I.R. 2.1.2.1.1: More public hearings conducted by government officials.</b>                  |   |               |       |        |        |        |        |        |
| 1. Municipal public hearings held.<br><br>Source: municipal records                             | Definition: medium-sized municipalities (300-500,000 pop.) that have public hearings, seminars, round tables (total=16)<br><br>Unit: number of holding hearings | 1995          | 2     | 4      |        | 10     | 15     | 16     |
| <b>I.R. 2.1.2.2: Readily available public information repositories established.</b>             |   |               |       |        |        |        |        |        |
| 1. Regions with access to non-government media repositories.<br><br>Source: USAID (contractors) | Definition: regions with access to non-governmental archives, libraries, data bases (total=5 regions)<br><br>Unit: number                                       | 1995          | 1     | 2      |        | 3      | 4      | 5      |
| <b>I.R. 2.1.2.2.1: Better independent news coverage.</b>  |   |               |       |        |        |        |        |        |
| 1. Increased independent TV news access.<br><br>Source: USAID (contractors)                     | Definition: medium and large cities (over 300,000 pop.) with coverage of daily national news by non-government stations<br><br>Unit: number of cities           | 1996          | 3     | 3      |        | 5      | 8      | 10     |

## Ukraine: SO 2.2

## PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |         |           |        |             |             |        |
|---|---|---------------|---------|-----------|--------|-------------|-------------|--------|
|   |   | YEAR          | VALUE   | 1996      |        | 1997        | 1998        | 1999   |
|   |   |               |         | Target    | Actual | Target      | Target      | Target |
| <b>Strategic Objective 2.2: Create legal systems that better support democratic processes and market reforms.</b> |   |               |         |           |        |             |             |        |
| 1. Administrative law code.<br><br>Source: official Gazette   | Definition: New Legal Code<br><br>Unit: Legal Code  | 1995          | No      | presented |        | adopted     | implemented | N/A    |
| <b>IR 2.2.1: Courts are empowered to be independent &amp; coequal branches of government.</b>                     |   |               |         |           |        |             |             |        |
| 1. Constitution.<br><br>Source: Gazette   | Definition: new Constitution<br><br>Unit:   | 1995          | drafted | adopted   |        | implemented | N/A         | N/A    |
| <b>IR 2.2.1.1: Better information available for use by courts.</b>  |   |               |         |           |        |             |             |        |
| 1. Access to current text of laws.<br><br>Source: project reports   | Definition: oblast courts of general jurisdiction with access to current laws<br><br>Unit: number of courts | 1995          | 0       | N/A       |        | 100         | 150         | 200    |
| <b>IR 2.2.1.2: The constitutional role of courts is clarified (separation of power).</b>                          |   |               |         |           |        |             |             |        |
| 1. Separation of power established.<br><br>Source: Gazette  | Definition: articles in new Constitution<br><br>Unit: articles  | 1995          | drafted | adopted   |        | implemented | N/A         | N/A    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |        |        |        |        |        |
|--|---|---------------|-------|--------|--------|--------|--------|--------|
|  |   | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|  |   |               |       | Target | Actual | Target | Target | Target |
| <b>IR 2.2.1.3: Increased capability of judges.</b>   |   |               |       |        |        |        |        |        |
| 1. Oblast decisions reversed by Supreme Court.<br><br>Source: project reports                    | Definition: decrease in number of opinions reversed<br><br>Unit: percentage decrease                                | 1995          | TBD   | 10     |        | 10     | 10     | 10     |
| <b>IR 2.2.2: Constitution, Civil and Criminal Codes are rationalized.</b>                        |   |               |       |        |        |        |        |        |
| 1. Laws controlling municipal revenue generating authority.<br><br>Source: project reports       | Definition: inconsistent sections of Civil Code corrected<br><br>Unit: Code sections                                | 1995          | TBD   | TBD    |        | TBD    | TBD    | TBD    |
| <b>IR 2.2.2.1: Improved legislative drafting.</b>  |   |               |       |        |        |        |        |        |
| 1. Use of technical staff in Parliament in draft law preparation.<br><br>Source: project reports | Definition: increased number of draft laws written with input from technical staff<br><br>Unit: percentage increase | 1995          | TBD   | TBD    |        | 15%    | 15%    | 15%    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       |        |        |        |        |        |
|--|--|---------------|-------|--------|--------|--------|--------|--------|
|  |  | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|  |  |               |       | Target | Actual | Target | Target | Target |
| <b>IR 2.2.3: Increased public awareness of laws and procedures.</b>  |  |               |       |        |        |        |        |        |
| 1. Public familiarity with privatization laws.<br>Source: poll   | Definition: increase in number of people familiar with procedures for participation in privatization<br><br>Unit: percent of people polled | 1995          | TBD   | TBD    |        | 50     | 50     | 50     |
| 2. Court cases initiated by environmental groups (or human rights groups, etc) involving enforcement of legal rights.<br>Source: project reports | Definition: increase in number of court cases involving legal rights initiated by environmental groups<br><br>Unit: number                 | 1995          | TBD   | TBD    |        | TBD    | TBD    | TBD    |
| <b>IR 2.2.3.1: Increased NGO advocacy.</b>   |  |               |       |        |        |        |        |        |
| 1. Public fora on new laws organized by NGOs.<br>Source: project reports   | Definition: increase in public hearings/debates organized by NGOs<br><br>Unit: number  | 1995          | TBD   | TBD    |        | 40     | 40     | 40     |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       |        |        |        |        |        |
|--|---|---------------|-------|--------|--------|--------|--------|--------|
|  |   | YEAR          | VALUE | 1996   |        | 1997   | 1998   | 1999   |
|  |   |               |       | Target | Actual | Target | Target | Target |
| <b>IR 2.2.4: Improved impartial application of laws.</b>   |   |               |       |        |        |        |        |        |
| 1. Criminal charges filed re: common theft and fraud.<br><br>Source: project reports   | Definition: increase in fraud charges related to crimes allegedly committed within Kyiv oblast cf. to theft charges<br><br>Unit: percent  | 1995          | TBD   | TBD    |        | 5      | 10     | 30     |
| <b>IR 2.2.4.1: Improved capacity of private sector attorneys.</b>  |   |               |       |        |        |        |        |        |
| 1. Theft charges dismissed.<br><br>Source: project reports   | Definition: increase in number of theft charges filed in Kyiv oblast dismissed for lack of proper procedure or evidence in cases involving defense attorneys<br><br>Unit: percent | 1995          | TBD   | TBD    |        | 10     | 15     | 15     |
| <b>IR 2.2.4.2: Increased law enforcement resources.</b><br>(This IR does not involve USAID; Work done by U.S. Department of Justice) |   |               |       |        |        |        |        |        |

Ukraine: SO 2.3

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
|  |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>Strategic Objective 2.3: More effective, responsive and accountable local government.</b> |   |               |       |               |        |        |        |        |
| 1. Public opinion.<br><br>Source: project report   | Definition: increase in public approval of local government<br><br>Unit: percentage | 1995          | TBD   | 5             |        | 10     | 10     | 5      |
| <b>I.R. 2.3.1: Improved management.</b>  |   |               |       |               |        |        |        |        |
| 1. Budget deficit decreases.<br><br>Source:  | Definition: six pilot municipalities<br><br>Unit: average                           | 1995          |       |               |        |        |        |        |
|  |   |               | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| <b>I.R. 2.3.1.1: Improved service delivery.</b>  |   |               |       |               |        |        |        |        |
| 1. Public opinion.<br><br>Source: project report   | Definition: poll<br><br>Unit: percentage  | 1995          |       |               |        |        |        |        |
|  |   |               | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| <b>I.R. 2.3.1.2: Improved financial planning.</b>  |   |               |       |               |        |        |        |        |
| 1. Actual discrepancy between budget and projected revenue.<br><br>Source: project report    | Definition: six pilot municipalities<br><br>Unit: percentage decrease               | 1996          | TBD   | 5             |        | 5      | 5      | 5      |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |           |        |             |  |
|--|---|---------------|-------|---------------|--------|-----------|--------|-------------|--|
|  |   | YEAR          | VALUE | 1996          |        | 1997      | 1998   | 1999        |  |
|  |   |               |       | Target        | Actual | Target    | Target | Target      |  |
| <b>I.R. 2.3.2: Increased local authority.</b>  |   |               |       |               |        |           |        |             |  |
| 1. Locally generated revenue.<br>Source: project report  | Definition: percentage increase of total, locally generated revenue in six municipalities<br><br>Unit: percentage | 1995          | TBD   | 5             |        | 5         | 5      | 5           |  |
| <b>I.R. 2.3.2.1: Legal reform.</b>   |   |               |       |               |        |           |        |             |  |
| 1. Law on local government.<br>Source: Rada Gazette  | Definition:<br><br>Unit: drafted/submitted/passed/implemented   | 1995          | No    | drafted       |        | submitted | passed | implemented |  |
| <b>I.R. 2.3.3: Increased citizen participation.</b>  |   |               |       |               |        |           |        |             |  |
| 1. Number of oblasts in which the target city uses citizen participation for planning.<br>Source: project report | Definition: base=27<br><br>Unit: number   | 1995          | 0     | 2             |        | 8         | 16     | 24          |  |
| <b>I.R. 2.3.3.1: Increased information regarding government operations.</b>                                      |   |               |       |               |        |           |        |             |  |
| 1. Public knowledge of public services.<br>Source: project report  | Definition: poll (test)<br><br>Unit: percentage score   | 1995          | 0     | TBD           |        | TBD       | TBD    | TBD         |  |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
|  |   | YEAR          | VALUE | 1996          |        | 1997   | 1998   | 1999   |
|  |   |               |       | Target        | Actual | Target | Target | Target |
| <b>I.R. 2.3.3.2: Improved NGO organizational skills.</b>   |   |               |       |               |        |        |        |        |
| 1. Number of NGOs with local government lobby success and influence using organizational skills.<br><br>Source: project report | Definition: success=accomplishment of previously defined objective<br><br>Unit: number  | 1995          | 0     | TBD           |        | 1      | 3      | 5      |
| <b>I.R. 2.3.3.3: Increased access to decision-making fora.</b>   |   |               |       |               |        |        |        |        |
| 1. Number of municipalities in 6 oblasts with citizen participation in decision making fora.<br><br>Source: project report     | Definition: decision making fora = town meetings<br><br>Unit: number  | 1995          | 0     | 5             |        | 10     | 20     | 30     |
| <b>I.R. 2.3.4: Greater transparency of government operations.</b>  |   |               |       |               |        |        |        |        |
| 1. Increase in volume of public archive information of local government operations.<br><br>Source: project report              | Definition: budget copies, public contracts, and elections results for every year since started<br><br>Unit: number of cities | 1996          | TBD   | N/A           |        | 3      | 6      | 12     |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT                                | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
|  |   | YEAR          | VALUE | 1996          |        | 1997   | 1998   | 1999   |
|  |   |               |       | Target        | Actual | Target | Target | Target |
| <b>I.R. 2.3.4.1: Increased government response to media/citizen questions about government operations.</b> |   |               |       |               |        |        |        |        |
| 1. Journalist opinion.<br><br>Source: project report   | Definition: poll<br><br>Unit: percentage who think responsiveness increased | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| <b>I.R. 2.3.4.2: Increased publications of fiscal activity.</b>  |   |               |       |               |        |        |        |        |
| 1. Annual publication of budgets.<br><br>Source: project report  | Definition: number of cities (six pilot municipalities)<br><br>Unit: number | 1995          | 0     | 1             |        | 3      | 5      | 6      |

## Ukraine: SO 3.1

## PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
|   |  | YEAR          | VALUE | 1996          |        | 1997   | 1998   | 1999   |
|   |  |               |       | Target        | Actual | Target | Target | Target |
| <b>Strategic Objective 3.1: Reduced human suffering and negative consequences of crises.</b>  |  |               |       |               |        |        |        |        |
| 1. Public opinion about quality of life since independence.<br><br>Source: IFES   | Definition: percentage of population sampled reporting improved quality of life<br><br>Unit: percent of change   | 1996          | TBD   | baseline      |        | 2      | 4      | 6      |
| <b>I.R. 3.1.1: Selected NGOs strengthened to provide services to vulnerable groups.</b>   |  |               |       |               |        |        |        |        |
| 1. Number of vulnerable persons in target populations served (i.e., elderly, disabled)<br><br>Sources: USAID NGO grantee/GOU data                     | Definition: number of elderly served by NGOs in selected oblasts (Kiev)<br><br>Unit: number  | 1991          | 0     | 6,000         |        | 10,000 | 15,000 | 20,000 |
| <b>I.R. 3.1.1.1: SO 2.1: New NGO laws passed in Rada.</b>   |  |               |       |               |        |        |        |        |
| <b>I.R. 3.1.1.2: NGOs have increased revenue sources including self-generating</b>  |  |               |       |               |        |        |        |        |
| 1. Number of USAID local NGO grantees 8-months after conclusion of USAID grant with self-generating revenue sources.<br><br>Source: USAID NGO grantee | Definition: percentage of indigenous NGOs that had received seed grants who are financially viable 8-months past end of USAID grant<br><br>Unit: percent | 1995          | N/A   | 75            |        | 75     | 75     | 75     |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
|   |  | YEAR          | VALUE | 1996          |        | 1997   | 1998   | 1999   |
|   |  |               |       | Target        | Actual | Target | Target | Target |
| <b>I.R. 3.1.1.3: Seed grants provided to NGOs providing services to vulnerable groups.</b>                                    |  |               |       |               |        |        |        |        |
| 1. Number of grants to local NGOs.<br><br>Source: USAID NGO grantee   | Definition: number of local NGO seed grants<br><br>Unit: cumulative number   | 1995          | 7     | 25            |        | 45     | 70     | 95     |
| 2. Total \$ value of seed grants committed to local NGOs.<br><br>Source: USAID NGO grantee                                    | Definition: \$ value NGO seed grants<br><br>Unit: cumulative \$(000's)   | 1995          | 180   | 400           |        | 700    | 1,200  | 1,700  |
| <b>I.R. 3.1.1.1/2/3.1: NGOs trained.</b>  |  |               |       |               |        |        |        |        |
| 1. Number of NGOs serving vulnerable groups that achieves minimum training standard<br><br>Source: USAID NGO grantee          | Definition: staff of the NGO (one or more persons) have attended a total of at least 3 training courses<br><br>Unit: cumulative number of NGOs | 1995          | 0     | 50            |        | 70     | 100    | N/A    |
| <b>I.R. 3.1.1.4: Routine humanitarian assistance for vulnerable groups provided through NGOs.</b>                             |  |               |       |               |        |        |        |        |
| 1. Number of NGOs receiving USAID humanitarian aid to distribute to vulnerable groups<br><br>Source: USAID Hum Assist grantee | Definition: number of NGOs<br><br>Unit: cumulative number of NGOs  | 1995          | 129   | 250           |        | 350    | 450    | N/A    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
|  |   | YEAR          | VALUE | 1996          |        | 1997   | 1998   | 1999   |
|  |   |               |       | Target        | Actual | Target | Target | Target |
| 2. Number of people in vulnerable groups (i.e., elderly) receiving humanitarian assistance from NGOs<br><br>Source: USAID Hum Assist grantee | Definition: number of vulnerable persons<br><br>Unit: cumulative number(000's)            | 1995          | 300   | 800           |        | 1,500  | 2,200  | N/A    |
| <b>I.R. 3.1.1.5: Improved infrastructure (office equipment, furniture) of NGOs.</b>  |   |               |       |               |        |        |        |        |
| 1. Number of NGOs receiving infrastructure support from USAID<br><br>Source: USAID Hum Assist grantee  | Definition: number of NGOs<br><br>Unit: cumulative number of NGOs                         | 1995          | 121   | 300           |        | 400    | 500    | N/A    |
| 2. \$ value of infrastructure support to NGOs<br><br>Source: USAID Hum Assist grantee  | Definition: \$ value of infrastructure support<br><br>Unit: cumulative \$(millions)       | 1995          | 1.6   | 3.0           |        | 4.0    | 5.0    | N/A    |
| <b>I.R. 3.1.2: Selected governmental social service institutions strengthened with equipment and supplies.</b>                               |   |               |       |               |        |        |        |        |
| 1. Number of government social service institutions receiving support<br><br>Source: USAID Hum Assist grantee/GOU data                       | Definition: number of hospitals, orphanages and homes for the elderly<br><br>Unit: number | 1995          | 454   | 775           |        | 1000   | 1300   | N/A    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |         | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|---------|---------------|--------|--------|--------|--------|
|   |   |               |         | 1996          |        | 1997   | 1998   | 1999   |
|   |   | YEAR          | VALUE   | Target        | Actual | Target | Target | Target |
| 2. \$ value of support to social service institutions<br><br>Source: USAID Hum Assist grantee   | Definition: \$ value to hospitals, orphanages, homes for the elderly<br><br>Unit: cumulative \$(millions) | 1995          | 3.0     | 20.0          |        | 25.0   | 30.0   | N/A    |
| <b>I.R. 3.1.3: Population protected against emergency health problems &amp; epidemics.</b>  |   |               |         |               |        |        |        |        |
| 1. Percentage of adults (16-59 yrs) immunized with one-shot diphtheria toxoid (Td vaccine) as recommended by WHO diphtheria control strategy.<br><br>Source: MOH data | Definition: percentage of adults receiving 1-shot Td vaccine<br><br>Unit: percent                         | 1995          | MOH/TBD | 90            |        | 90     | 90     | 90     |
| 2. Vaccination coverage of children under one-year for selected diseases (i.e., measles, DPT3, polio3, BCG)<br><br>Source: MOH data                                   | Definition: percentage of vaccine coverage for under-ones<br><br>Unit: percent                            | 1994          | MOH/TBD | 90            |        | 90     | 90     | 90     |
| <b>I.R. 3.1.3.1: Adequate supply of medical commodities/vaccines assured.</b>   |   |               |         |               |        |        |        |        |
| 1. Percent of WHO-estimated need for EPI vaccines assured.<br><br>Source: WHO/IICC; MOH   | Definition: percentage of EPI vaccines assured<br><br>Unit: percent                                       | 1994          | 100     | 100           | 100    | 100    | N/A    | N/A    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
|   |  | YEAR          | VALUE | 1996          |        | 1997   | 1998   | 1999   |
|   |  |               |       | Target        | Actual | Target | Target | Target |
| 2. WHO-estimated percent of diphtheria toxoid (Td vaccine) met for diphtheria control<br><br>Source: WHO/IICC; MOH                                | Definition: percentage of Td vaccine met<br><br>Unit: percent  | 1995          | TBD   | 100           |        | 100    | N/A    | N/A    |
| <b>I.R. 3.1.3.1.1: GOU purchases through competitive international procurement of vaccines &amp; pharmaceuticals</b>                              |  |               |       |               |        |        |        |        |
| 1. Number of competitive procurements by the MOH for vaccines & pharmaceuticals<br><br>Source: PATH; MOH  | Definition: percentage of competitive procurements<br><br>Unit: cumulative number                                    | 1995          | 0     | 1             |        | 3      | N/A    | N/A    |
| <b>I.R. 3.1.3.1.2: Medical commodities provided by donors.</b>  |  |               |       |               |        |        |        |        |
| 1. Percentage of EPI annual vaccine shortfall supplied by donors<br><br>Source: WHO/IICC; MOH   | Definition: dollar amount<br><br>Unit: percent total   | 1994          | 100   | 100           |        | 100    | N/A    | N/A    |
| <b>I.R. 3.1.3.2: Improved surveillance and delivery systems.</b>  |  |               |       |               |        |        |        |        |
| 1. TBD: preliminary indicator -- Action-oriented surveillance system for diphtheria and polio control in selected oblasts<br><br>Source: CDC; MOH | Definition: oblasts adopted action-oriented surveillance system for diphtheria and polio control<br><br>Unit: number | 1996          | 0     | 0             |        | 10     | N/A    | N/A    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT                              | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
|   |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| 2. Data on vaccinations of target population available<br><br>Source: PATH; MOH                       | Definition: data on vaccinations to target population<br><br>Unit: Yes/No | 1994          | NO    | YES           |        | YES    | YES    | YES    |
| <b>I.R. 3.1.4: Humanitarian assistance provided in response to disasters as occur.</b>                |   |               |       |               |        |        |        |        |
| 1. Disasters (as declared by Ambassador) responded to.<br><br>Source: USAID; USAID Hum Assist Grantee | Definition: percentage of disasters responded to<br><br>Unit: percent     | 1994          | 100   | 100           |        | 100    | 100    | 100    |
| <b>I.R. 3.1.5: SO 3.2: Improved sustainable social benefits and resources.</b>                        |   |               |       |               |        |        |        |        |

242

## Ukraine: SO 3.2

## PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR   |        |        |        |        |
|--|--|---------------|-------|-----------------|--------|--------|--------|--------|
|  |  |               |       | 1996            |        | 1997   | 1998   | 1999   |
|  |  | YEAR          | VALUE | Target          | Actual | Target | Target | Target |
| <b>Strategic Objective 3.2: Improved sustainability of social benefits and services</b>                |  |               |       |                 |        |        |        |        |
| 1. GOU spending on social sector reduced.<br><br>Source: IMF   | Definition: consolidated GOU outlays for 8 social service categories<br><br>Unit: percent of GDP   | 1995          | 24.5  | 22.8            |        | 21.0   | 20.0   | 20.0   |
| <b>IR 3.2.1: Redefined public sector role</b>  |  |               |       |                 |        |        |        |        |
| 1. Legislative reform.<br><br>Source: Golos Ukrainy  | Definition: fundamental law on social insurance enacted<br><br>Unit: Yes/No                        | 1995          | No    | December<br>Yes |        | N/A    | N/A    | N/A    |
| <b>IR 3.2.1.1: New or improved government institutions.</b>  |  |               |       |                 |        |        |        |        |
| 1. Emergency Medical Services (EMS) Training Center upgrades emergency care skills.<br><br>Source: EMS | Definition: emergency care providers awarded licenses by Center<br><br>Unit: total number licensed | 1995          | 50    | 550             |        | 600    | 600    | 600    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
|   |  |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |  | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>IR 3.2.1.2: Public advocacy/demand.</b>  |  |               |       |               |        |        |        |        |
| 1. Public support for targeting subsidies for the poor vs. supporting all citizens.<br><br>Source: USAID poll | Definition: forced choice "all citizens" vs " the poorest"<br><br>Unit: percentage of people who agree | Oct. 1995     | 45    | 65            |        | 70     | TBD    | TBD    |
| <b>IR 3.2.1.3: Improved targeting of public sector</b>  |  |               |       |               |        |        |        |        |
| 1. Cost recovery for utilities and housing.<br><br>Source: IMF  | Definition: amount of cost recovered<br><br>Unit: percent of total cost                                | 1994          | 4     | 60            |        | 100    | 100    | 100    |
| <b>IR 3.2.1.1/3.1: SO 3.1 Increased adherence to selected policy guidelines.</b>                              |  |               |       |               |        |        |        |        |
| <b>IR 3.2.1.1/3.2: Enforcement of financial obligations to the government (taxes, energy, etc.).</b>          |  |               |       |               |        |        |        |        |
| 1. Families in debt for housing and communal services.<br><br>Source: USAID survey, Ministry of Statistics    | Definition: families with arrears of two months or more<br><br>Unit: percentage in debt                | 1995          | 30    | 25            |        | 20     | 15     | 15     |
| <b>IR 3.2.1.1/3.3: Improved social benefits processing.</b>   |  |               |       |               |        |        |        |        |
| 1. Nation-wide unified network to process social payments.<br><br>Source: project reports                     | Definition: oblasts on-line (total=27)<br><br>Unit: number   | 1995          | 0     | 0             |        | 5      | 27     | 27     |
| <b>IR 3.2.1.1/3.4: SO 3.1 Improved surveillance and delivery systems.</b>                                     |  |               |       |               |        |        |        |        |

744

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT | BASELINE DATA |       | CALENDAR YEAR |        |   |                             |                             |
|---|--|---------------|-------|---------------|--------|---|-----------------------------|-----------------------------|
|   |  |               |       | 1996          |        | 1997  | 1998                        | 1999                        |
|   |  | YEAR          | VALUE | Target        | Actual | Target  | Target                      | Target                      |
| <b>IR 3.2.1.4: Improved human capacity</b>  |  |               |       |               |        |   |                             |                             |
| 1. Training programs in reproductive health.  | Definition: abortion rate decreases          | 1994          | TBD   | 5             |        | 5   | 5                           | 5                           |
| Source: project records   | Unit: percent                                |               |       |               |        |   |                             |                             |
| <b>IR 3.2.2: Policy, legal, regulatory framework for private and public sector roles defined.</b> |  |               |       |               |        |   |                             |                             |
| 1. Private pension fund regulatory framework established.   | Definition: Private Pension Law              | 1995          | N/A   | law enacted   |        | Implemented (regulatory agency established and functioning) | 20 pension funds registered | 30 pension funds registered |
| Source: Golos Ukrainy, regulatory agency data   | Unit: status                                 |               |       |               |        |   |                             |                             |
| <b>IR 3.2.3: SO 3.1 Developed private sector benefits and services.</b>                           |  |               |       |               |        |   |                             |                             |
| <b>IR 3.2.3.1: SO 3.1 New and improved private sector entities developed.</b>                     |  |               |       |               |        |   |                             |                             |
| <b>IR 3.2.3.1.1: SO 3.1 Increased revenue sources including self-generating.</b>                  |  |               |       |               |        |   |                             |                             |
| <b>IR 3.2.4: SO 3.1 Reduced human suffering and crisis impact.</b>                                |  |               |       |               |        |   |                             |                             |

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

| INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | YEAR | VALUE | PERFORMANCE INDICATOR |        |        |
|---|------|-------|-----------------------|--------|--------|
|   |      |       | Actual                | Target | Target |
| INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | YEAR | VALUE | PERFORMANCE INDICATOR |        |        |
|   |      |       | Actual                | Target | Target |
| 1. New GOU policies, draft laws.<br>Source: project reports   | 1996 | N/A   | 6                     | 10     | N/A    |
|   | 1996 | N/A   | 6                     | 10     | N/A    |
| Strategic Objective 3.3: Increased capacity to deal with pollution as a threat to public health.  |      |       |                       |        |        |
| 1. Environmental laws, regulations with incentives to adopt efficient use of natural resources, and environmentally sound techniques/technologies.<br>Source: GOU, project reports                                    | 1995 | 0     | 1                     | 5      | 6      |
|   | 1995 | 0     | 1                     | 5      | 6      |
| 1.R.3.3.1: More national policies and plans integrate environmental, economic and social goals.   |      |       |                       |        |        |
| 1. Environment/economy policy council established - includes representatives from government ministers and national parliament, private sector, NGO community and international community.<br>Source: project reports | 1995 | No    | Yes                   | Yes    | Yes    |
|   | 1995 | No    | Yes                   | Yes    | Yes    |

CALENDAR YEAR

472

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
|   |  |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |  | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| 2. Number of environmental NGOs.<br>Source: project reports   | Definition: environmental NGOs<br>Unit: number   | 1995          | 80    | 150           |        | 200    |        |        |
| <b>I.R. 3.3.1.2: Increased public awareness and education regarding environment/economy.</b>  |  |               |       |               |        |        |        |        |
| 1. Survey of public awareness.<br>Source: project reports   | Definition: public awareness of linkages environment/ economic growth<br>Unit: percentage increase | 1996          | TBD   | 5             |        | 5      | 5      | 5      |
| <b>I.R. 3.3.1.3: Increased availability and dissemination of environmental information.</b>   |  |               |       |               |        |        |        |        |
| 1. MEPNS monitoring radioactive and non-radioactive contamination outside designated contaminated zone.<br>Source: GOU, project reports | Definition: contamination of land monitoring<br>Unit: Yes/No                                       | 1995          | No    | Yes           |        | Yes    | Yes    | Yes    |
| 2. MEPNS monitoring water quality in rivers/ reservoirs.<br>Source: GOU, project reports  | Definition: contamination of water monitoring<br>Unit: Yes/No                                      | 1995          | No    | Yes           |        | Yes    | Yes    | Yes    |
| 3. Number of environmental education centers established.<br>Source: project reports  | Definition: public information centers<br>Unit: total number of centers                            | 1995          | 1     | 2             |        | 3      | 4      | N/A    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
|   |  | YEAR          | VALUE | 1996          |        | 1997   | 1998   | 1999   |
|   |  |               |       | Target        | Actual | Target | Target | Target |
| <b>I.R. 3.3.2: Safer and more sustainable -- economically and environmentally -- water infrastructure.</b>  |  |               |       |               |        |        |        |        |
| 1. Increased access to potable water by hospitals and other public services.<br><br>Source: project reports | Definition: modular water purification units supplied<br><br>Unit: total number                                      | 1995          | 0     | 1             |        | 500    | 1000   | 1000   |
| 2. Water utilities using consumption based billing.<br><br>Source: project reports                          | Definition: utility bills<br><br>Unit: number of utilities   | 1995          | 0     | 1             |        | 3      | 14     | 40     |
| <b>I.R. 3.3.2.1: Contamination of municipal water supply reduced.</b>                                       |  |               |       |               |        |        |        |        |
| 1. Water quality improved by municipalities.<br><br>Source: project reports                                 | Definition: water reservoir contamination in Kaniv reservoir<br><br>Unit: percentage decrease                        | 1995          | 100   | N/A           | 5      | 5      | 10     | 10     |
| <b>I.R. 3.3.2.2: Efficiency and safety of water distribution system improved.</b>                           |  |               |       |               |        |        |        |        |
| 1. Energy efficiency of water utilities increased.<br><br>Source: project reports                           | Definition: decreased energy consumption as percentage of L'viv water utility operating cost<br><br>Unit: percentage | 1995          | 70    | 50            |        | 30     | 25     | 20     |
| 2. Supply of uncontaminated water to citizens in pilot area increased.<br><br>Source: project reports       | Definition: increased clean water supply<br><br>Unit: hours/day  | 1995          | 6     | 6             |        | 12     | 15     | 20     |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT                           | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|--|---------------|-------|---------------|--------|--------|--------|--------|
|   |  | YEAR          | VALUE | 1996          |        | 1997   | 1998   | 1999   |
|   |  |               |       | Target        | Actual | Target | Target | Target |
| <b>I.R. 3.3.2.3: Domestic production of water purification and energy efficient water technologies increased.</b> |  |               |       |               |        |        |        |        |
| 1. Modular water purification units manufactured in Ukraine.<br>Source: project reports                           | Definition:<br>Unit: number  | 1995          | 0     | 3             |        | 500    | 1000   | 1000   |
| <b>I.R. 3.3.3: More environmentally sustainable and safer agriculture sector.</b>                                 |  |               |       |               |        |        |        |        |
| 1. Improved farm productivity and energy efficiency.<br>Source: project reports and GOU                           | Definition: ratio farm production value to energy costs<br>Unit: ratio | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| <b>I.R. 3.3.3.1: Soil erosion reduced; ground and surface water contamination reduced.</b>                        |  |               |       |               |        |        |        |        |
| 1. Reduced soil erosion.<br>Source: project reports   | Definition: topsoil lost<br>Unit: cubic meters                         | 1996          | TBD   | N/A           |        | TBD    | TBD    | TBD    |
| <b>I.R. 3.3.3.2: Safer, more efficient use of pesticides.</b>   |  |               |       |               |        |        |        |        |
| 4. Reduced pesticide-related accidents.<br>Source: project reports  | Definition: poisoning from spillages<br>Unit: number of cases          | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| <b>I.R. 3.3.3.3: Increased use of no tillage/low agriculture techniques.</b>                                      |  |               |       |               |        |        |        |        |
| 1. Reduced energy consumption per farming unit.<br>Source: project reports  | Definition: oil, fueled equipment<br>Unit: gallons/month               | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |

672

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT   | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|--|---------------|-------|---------------|--------|--------|--------|--------|
|  |  |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |  | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>I.R. 3.3.4: Safer, more environmentally sound and efficient industrial sector.</b>  |  |               |       |               |        |        |        |        |
| 1. Improved financial sustainability of enterprises using safer, more environmentally sound and efficient production processes.<br><br>Source: project reports and GOU | Definition: financial sustainability of enterprises using safer, more environmentally sound production processes<br><br>Unit: operating margin | 1995          | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| <b>I.R. 3.3.4.1: Potential investor costs related to environmental management identified.</b>  |  |               |       |               |        |        |        |        |
| 1. Increased investment in environmental clean-up.<br><br>Source: project reports  | Definition: iron and steel industries<br><br>Unit: percentage operating costs  | 1996          | TBD   | N/A           |        | TBD    | TBD    | TBD    |
| <b>I.R. 3.3.4.2: Increased use of energy efficient and waste minimization technologies and techniques.</b>   |  |               |       |               |        |        |        |        |
| 1. Energy consumption reduced.<br><br>Source: project reports  | Definition: iron and steel enterprises<br><br>Unit: kilowatts  | 1996          | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| 2. Waste generated reduced.<br><br>Source: project reports   | Definition: iron and steel enterprises<br><br>Unit: TBD  | 1996          | TBD   | TBD           |        | TBD    | TBD    | TBD    |

| PERFORMANCE INDICATOR  | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|--|---|---------------|-------|---------------|--------|--------|--------|--------|
|  |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|  |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>I.R. 3.3.4.3: Independent efficiency/waste minimization service organizations.</b>                      |   |               |       |               |        |        |        |        |
| 1. Number of service organizations.<br><br>Source: project reports   | Definition: energy efficiency and waste reduction organizations<br><br>Unit: number                           | 1995          | 0     | 2             |        | 10     | 15     | 20     |
| <b>I.R. 3.3.4.4: Domestic production of energy efficient/waste minimization technologies increased.</b>    |   |               |       |               |        |        |        |        |
| 1. Domestic production of energy efficient technologies.<br><br>Source: project reports                    | Definition: energy efficient equipment, e.g. motors, pumps<br><br>Unit: number                                | 1996          | TBD   | N/A           |        | TBD    | TBD    | TBD    |
| 2. Domestic production of waste minimization technologies.<br><br>Source: project reports                  | Definition: equipment designed for iron and steel enterprises<br><br>Unit: percentage of capital improvements | 1996          | TBD   | TBD           |        | TBD    | TBD    | TBD    |
| <b>I.R. 3.3.4.5: Increased investment in environmentally sound small business (including eco-tourism).</b> |   |               |       |               |        |        |        |        |
| 1. Number of environmentally sound small business established.<br><br>Source: project reports              | Definition: business with less than 200 employees<br><br>Unit: number   | 1995          | 0     | TBD           |        | TBD    | TBD    | TBD    |
| <b>I.R. 3.3.5 Increased participation in international markets and other international fora.</b>           |   |               |       |               |        |        |        |        |
| 1. Increased exports of environmentally safe products.<br><br>Source: project reports                      | Definition: increase as percentage of total exports<br><br>Unit: percentage                                   | 1996          | TBD   | N/A           |        | TBD    | TBD    | TBD    |

| PERFORMANCE INDICATOR   | INDICATOR DEFINITION AND UNIT OF MEASUREMENT  | BASELINE DATA |       | CALENDAR YEAR |        |        |        |        |
|---|---|---------------|-------|---------------|--------|--------|--------|--------|
|   |   |               |       | 1996          |        | 1997   | 1998   | 1999   |
|   |   | YEAR          | VALUE | Target        | Actual | Target | Target | Target |
| <b>I.R. 3.3.5.1: Increased compliance with international standards/guidelines.</b>  |   |               |       |               |        |        |        |        |
| 1. Increased number of enterprises meet international and/or European guidelines for environmentally sound production.<br><br>Source: project reports | Definition: iron, steel and chemical enterprises meeting ISO 1400 standards<br><br>Unit: number | 1995          | 0     | TBD           |        | TBD    | TBD    | TBD    |
| <b>I.R. 3.3.5.2 Biodiversity protection strengthened in economically sustainable way.</b>   |   |               |       |               |        |        |        |        |
| 1. Biodiversity strategy completed.<br><br>Source: MEPNS, project reports   | Definition: US/GOU-developed strategy<br><br>Unit: Yes/No                                       | 1995          | No    | No            |        | Yes    | Yes    | Yes    |

252