

Country Strategy Paper 2002-2006

National Indicative Programme 2002-2003

Ukraine

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Summary

The Ukraine Country Strategy Paper (CSP) was adopted by the Commission on 27 December 2001 and provides the strategic framework within which EC assistance will be provided for the period 2002-2006. The CSP follows the guidelines set out in the Framework for Country Strategy Papers, and takes its basis from the Regulation for the provision of assistance to the partner countries in Eastern Europe and Central Asia (Council Regulation (EC, Euratom) No 99/2000 of 29 December 1999). The CSP constitutes the Indicative Programme as described in article 3.2 and 3.3 of the Regulation and revises and updates (as foreseen in article 3.6 of the Regulation) the Indicative Programme for 2000-2003 adopted in 2000. The CSP sets out EC co-operation objectives, policy response and priority fields of co-operation based on a thorough assessment of policy agenda and political and socio-economic situation of Ukraine. The National Indicative Programme (Chapter 6 of the CSP) sets out the response in more detail, highlighting programme objectives, expected results and conditionality for Tacis in the priority areas of co-operation for the period 2002-2003.

EU/EC relations with Ukraine are based on the Partnership and Co-operation Agreement (PCA), providing for trade liberalisation and wide ranging co-operation, as well as on the Common Strategy, under the Common Foreign and Security Policy. While trade flows with Ukraine remain limited, there is potential for an increase, considering the size of its 50-million inhabitant market, its geographical proximity and its links with future EU members. However, enlargement will increase EU awareness of “soft” security threats from Ukraine, in the field of environment, nuclear safety, justice and home affairs (illegal migration, organised crime, money laundering, etc.) and public health.

Weaknesses and uncertainties still characterise the political, economic and social situation in Ukraine, in spite of recent economic recovery after almost 10 years of GDP decline. Strengthening democratic and civic institutions, particularly independent mass media, as well as the judiciary and public administration, is a key priority. While the Government in 2000 and 2001 initiated several important legal, judicial, institutional, social and economic reforms, the main challenge facing Ukraine over the medium term is, to sustain economic growth through structural reforms, particularly in the energy and agricultural sectors, to establish a legal framework conducive to investment, to join the WTO and to restructure the banking sector and the social security system, in a society where poverty and inequalities have dramatically increased. The energy sector requires particular attention, as Ukraine is an important transit country for energy supplies from Russia and is heavily dependent on oil and gas imports, largely due to very inefficient energy use. These problems are aggravated by the consequences of the recent closure of the Chernobyl nuclear power plant.

Since 1991, EC technical assistance has been one of the leading programmes supporting the transition process in Ukraine. Following a country programme evaluation in 1998 stressing the sometimes limited impact of a sector approach, EC assistance has been progressively focused on a limited number of areas, in order to support institutional reforms in Ukraine and achieve a systemic impact in key fields linked to the PCA implementation process. This assistance is complemented by other EC instruments, such as the European Initiative for Democracy and Human Rights, humanitarian aid, macro-financial loans and co-operation in science and technology. Increased co-ordination at all levels has also been sought with the EU member States, the International Financial Institutions and the other major donors.

Within that context and taking into account the objectives of the PCA implementation and recent EU policy developments (such as the progress in the enlargement process), the EC

response strategy 2002-2006 can most effectively assist Ukraine by focusing on trade- and investment-related issues, using the full potential of the PCA, to be supported by Ukraine's approximation of legislation to EU standards, and public service reform; on judicial reform and justice and home affairs (including border management and migration questions); on civil society development through partnership and exchange programmes with EU institutions; on the alleviation of the social impact of reforms; and on energy and the environment. On the basis of the areas of co-operation defined in the Regulation No 99/2000, "**support for institutional, legal and administrative reform**", "**support to the private sector and assistance for economic development**" and "**support in addressing the social consequences of transition**", the following priorities have therefore been identified under the National Indicative Programme 2002-2003:

- **Legal, judicial and administrative reform**
- **Border management**
- **Business, trade and investment promotion**
- **Civil society, training and education**
- **Social reform**
- **Fuel gap (2002)**

Environmental and energy-related issues will be given particular attention in the different components of the NIP. These issues, together with transport and justice and home affairs, are also among the priorities of separate regional and horizontal programmes.

1. EU/EC co-operation objectives

1.1. Partnership and Co-operation Agreement, Common Strategy and EU-Ukraine neighbourhood

The EU's co-operation objectives with Ukraine are to foster respect of democratic principles and human rights as well as transition towards a market economy. They are based on the **Partnership and Co-operation Agreement (PCA)** and the EU's **Common Strategy (CS)**, which form part of a proximity policy, reflecting the political and strategic importance of Ukraine to the EU. The PCA provides for trade liberalisation and wide ranging co-operation, based on respect of democratic principles and human rights. EC assistance is the main financial instrument supporting the implementation of the PCA, assisting Ukraine in the strengthening of democracy and the rule of law, the consolidation of a market economy and the strengthening of administrative capacity linked to the implementation of the agreement, particularly in the areas of trade and the internal market.

PCA provisions governing goods, services, labour, and capital introduce extensive, legally binding requirements. The PCA is an important instrument in harmonising Ukraine's legal framework with the single European market and the World Trade Organisation (WTO) system. Its evolutionary potential, including a reference to the possibility of a future free trade area, pave the way for further strengthening of trade and investment relations and of economic co-operation. The institutional structures established by the PCA comprise ministerial, senior official and working-level meetings, where priorities for co-operation are discussed.

The European Union **Common Strategy** on Ukraine, adopted in 1999 as a new instrument under the Common Foreign and Security Policy, aims to develop a strategic partnership between the EU and Ukraine on the basis of the PCA. It acknowledges Ukraine's European aspirations and welcomes its pro-European choice. The strategy sets three principal objectives:

- support of the democratic and economic transition process in Ukraine;
- meeting common challenges on the European continent (stability and security in Europe, environment, energy and nuclear safety);
- support for strengthened co-operation between the EU and Ukraine in the context of enlargement (support for Ukraine's integration into the European and world economy, co-operation in the field of Justice and Home Affairs).

The Common Strategy of the EU has provided orientation for Community and Member States' policies towards Ukraine for the last years. Successive EU Presidencies have reported about implementation of the Common Strategy, including actions taken during their presidency towards achieving the objectives set in the strategy. The JHA Action Plan, to be adopted by the Council in 2001, for subsequent endorsement by Ukraine, identifies areas of co-operation such as border management, fight against organised crime, illegal immigration and trafficking.

In terms of surface area, Ukraine is the second largest country in Europe. After enlargement it will have a long border with the EU. Given Ukraine's location and size, it is likely to become an even more crucial neighbour and partner for the EU after enlargement. As Ukraine's immediate neighbour, the EU has a particular interest in a politically, economically and socially stable, independent Ukraine. Ukraine's continued democratic development and an accelerated process of transition to a market economy are essential for the EU. Proximity after enlargement will require joint approaches to tackling crucial issues in fields such as justice and home affairs, transport and environment. Because of its ports and pipeline networks, Ukraine has an important role as a transit country, especially for EU energy supplies. Ukraine's trade with the EU and EU investments in Ukraine are still small compared with Ukraine's economic potential, its market of 50 million inhabitants and its location between the enlarged EU and Russia.

1.2 Trade and commercial relations

Thanks to the most-favoured-nation treatment and the abolition of most quota restrictions under the PCA, the EU and Ukraine have achieved mutual opening of their respective markets. Trade in goods is covered by the PCA, and also by two sector agreements, on trade in certain steel products and on trade in textiles. However, while the EU accounts for about 15 % of Ukraine's trade and is its main trade partner outside the New Independent States, EU exports to Ukraine remain marginal and EU trade flows with Ukraine are low, considering the size of the Ukrainian market and its geographical proximity (see Annexes 1 and 2). Manufactured products predominate in EU exports, which are, however, limited by Ukraine's low purchasing power and to some extent by market access problems. Trade barriers in Ukraine sometimes stem from a lack of understanding of PCA/WTO requirements, such as in the field of standards, technical regulations and conformity assessment procedures. In other areas, they come from an explicit desire to protect domestic producers, in spite of PCA commitments. The structure and limited volume of bilateral trade also reflect the current configuration of the Ukrainian economy, where the share of primary industry has doubled since independence (hence an insufficiently diversified export base), while the country has difficulty in competing with developed countries in sophisticated industrial products because of quality problems. The PCA needs therefore to be used in full in order to develop EU-Ukraine trade and investment links in line with their potential.

1.3 Political and security issues

The EU has an interest in the continuation of Ukraine's moderate and stabilising foreign policy in the region. Ukraine has good relations with all its neighbours and has successfully handled potential internal conflict (Crimea). It maintains close relations both with NATO - through the

1997 Distinctive Partnership - and with Russia, leasing the Russian Black Sea Fleet parts of its naval base facilities in Sevastopol. Ukraine remains reluctant to agree to multilateral integration in the Commonwealth of Independent States, but has actively pursued closer bilateral relations with its neighbours, especially with Russia as well as with Poland, the Baltic states and the GUUAM-group (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova).

The EU is in favour of Ukraine's active participation in regional initiatives such as the Black Sea Economic Co-operation (BSEC), its involvement in peace efforts, e.g. on Transdnistria and Abkhazia, and participation in UN peacekeeping, including in FYROM and Bosnia-Herzegovina. Ukraine has expressed an interest in participating in similar future activities under the EU flag, including in the sphere of de-mining.

Since the late 1990s, Ukraine's stated principal foreign policy goal is European integration. The EU has welcomed Ukraine's European orientation and has reiterated its support for Ukraine's efforts to complete its political and economic transformation, which will facilitate its further rapprochement with the EU. But Ukraine's economic weakness and energy dependency, as well as historic and cultural factors, expose the country to Russian economic and political influence. The slowness of economic and political reform is increasing the gap between Ukraine and neighbouring EU accession countries. Ukraine has weak traditions of rule of law, democratic and civil institutions and free media, and corruption is generally considered as high. This could make Ukraine's rapprochement to the EU difficult and could in particular lead to increasing cross-border problems between Ukraine and the enlarged EU, including money-laundering, environmental pollution, the spread of diseases such as tuberculosis and HIV/AIDS, and illegal trafficking of people, drugs and weapons. Ukraine is indeed an important source and transit country for illegal migrants towards the EU and the European Councils of Tampere (October 1999) and Feira (June 2000) stressed the need for action against trafficking of people and illegal migration. Following the terrorist attack in the US on 11 September, co-operation with the EU could also be enhanced in a series of fields, e.g. money laundering, with a view to preventing the flow of funds from illegal activities being used by terrorists and criminal organisations.

1.4 Nuclear safety and rationalisation of energy policies

The environmental and health consequences of Chernobyl and **nuclear safety** concerns will continue to occupy an important place in EU-Ukrainian relations. Since 1995, when the G7, the EC and Ukraine agreed to close the Chernobyl nuclear power plant by the year 2000, the EC has granted EUR 350 million in Tacis assistance (fuel gap excluded) for Chernobyl-related projects, including, i.a., assistance for decommissioning of Chernobyl and for designing replacement capacities (nuclear plants Khmel'nitsky 2 and Rovno 4, or "K2R4"); and the replacement of the temporary shelter ("sarcophagus") by a permanent structure.

After the closure of Chernobyl in December 2000, it is in the interest of the EU that Ukraine continues to increase the safety of its nuclear power plants in line with EU standards, and that the overall energy efficiency improves. In 2000, a Euratom loan of the EUR equivalent of USD 585 millions was decided for co-financing with EBRD and Western export credit agencies the completion of the nuclear reactors K2R4, as a safe replacement for Chernobyl. This financial package is conditional on the implementation of internationally accepted safety standards for K2R4, based on a project design endorsed by Western Technical Safety Organisations (TSOs), and linked inter alia to policies supporting the reform of the energy sector, e.g. the development of a financially sound electricity market with market-based pricing and the privatisation of distribution companies. At the moment, December 2001, it is unclear whether Ukraine will go ahead with this project or choose to complete K2R4 by using alternative project designs.

2. Policy agenda of Ukraine

Ukraine's policy agenda is summarised in the Government's Activity Programme for 2000-2004. Its main strategic objectives are the development of Ukraine's human and natural resources, a reduction in poverty, an increase in economic competitiveness, and Ukraine's integration into the EU. Between 2000 and 2001, the Government pursued these broad objectives rather successfully. The new Government appointed in May 2001 has maintained these priorities, but has added the acceleration of structural change in the economy, creation of an attractive investment climate and supportive legal environment, and ensuring freedom of speech. A resumption of co-operation with the international financial institutions is part of this strategy. The new Prime Minister, continuing the macroeconomic policies of his predecessor has managed to re-establish effective co-operation with the IMF in September 2001, with the renewal of the Extended Funds Facility after a break of almost two years. He has also re-emphasised Ukraine's European aspirations. However, while the Government is emphasising tax reform and a better business climate as principal priorities, the upcoming campaign for parliamentary elections in March 2002 is likely to slow down needed legislative reform including new tax, civil, land, customs and commercial codes. In this context, the President set ambitious goals for 2002, including economic growth of 6% and increased social benefits and salaries, while maintaining fiscal and external stability.

These policy objectives including the additions and precision made by the new Government are broadly reasonable and compatible with EU objectives, although they are not always explicit about the political and socio-economic path of Ukraine. It is therefore important to follow their implementation through practical government policies.

3. Country analysis

Area (km ²) 603,000	Population (million) 2000 49.3	GNP/capita (USD) 1999 750
Real GDP growth rate (%) 2000 5.8	Real level of 1999 GDP as % of 1989 GDP 36	Inflation rate (%) 2000 28.2

3.1 Political situation

The dismissal and replacement of the Government in April/May 2001 seem to indicate some important political constraints for Ukraine's ability to make further progress towards its stated policy goals: a lack of consensus between the President, the Government and the Parliament; a highly "presidential" constitution; weakness in policy formulation and implementation; entrenched vested interests in decision-making; and weak political accountability, due to a fragile civil society.

By comparison with previous policies, the Ukrainian leadership had, however, achieved some success in 2000-2001. It managed to restore some confidence, both internal and external, through the creation of an improved macroeconomic framework, progress in market economy legislation, fiscal stabilisation, a reduction in barter trade and inter-enterprise arrears; and timely payment of pensions and salaries.

Despite this progress, problems of corruption and human rights infringements continue to remain a feature of Ukrainian reality. This has allowed for the rise of so-called "oligarchs", or political-financial groups gaining power and wealth through their connections to the authorities.

It has also allowed for serious human rights violations. Examples of this include several unresolved murders of journalists, often following their reporting of crime and corruption. It also includes the use of the law enforcement authorities against political enemies, with courts still playing a very limited role to independently settle conflicts in accordance to the law.

Ukraine's President and Parliament are democratically elected. Parliamentary elections are due in March 2002. President Kuchma's term of office runs till November 2004. While the disappearance of a journalist and alleged abuse of power have tarnished his mandate, the opposition movements have not yet managed to become a strong political alternative and their role in Ukraine's political developments remains small.

This leaves prospects for clear leadership and further democratic and economic reform somewhat uncertain. The new Government in place since May 2001 has, however, signalled continuity of democratic and economic reform policies and has re-emphasised its European aspirations. There are also some signs of the emergence of a more structured political debate, with public opinion and media playing a more assertive role in the determination of Ukraine's political agenda. A civil society is beginning to emerge, but it requires improvements of the legal, administrative and organisational framework in order to play a more active role in Ukraine's political development.

3.2 Economic and social situation

The Ukrainian economy declined steadily after independence, with GDP in 1999 only around 50% of the 1992 level and lower performances than in other NIS. After a period very close to hyperinflation in 1993-1994, Ukraine started to apply stabilisation measures. In 1996 the national currency was successfully introduced and the strict monetary policy of the National Bank led to a significant reduction of inflation, which has remained at a low level.

The year 2000 brought the first reversal of the negative growth trend. GDP grew by almost 6%, industrial production by 13%, and gross agricultural output by 9%. The positive change can be attributed both to a favourable external environment and to improved government policy, e.g. the devaluation following the crisis of 1998 and the recovery of the Russian economy in 2000, which led to an unprecedented trade surplus; improved budgetary management and improved enforcement of cash payments for energy; and the payment of pension and salary arrears, which prompted an expansion in consumer demand.

Preliminary results of the year 2001 confirm that economic growth in Ukraine continues and its pace even increases (GDP and industrial production growth of, respectively, 10.8 % and 16.9 % in January-July). It is assumed that it is mainly caused by increase in production in traditional branches of heavy industry and return of capital, previously exported from Ukraine, due to improvements in the business climate. Foreign economic activity growth has also been higher than expected, with the foreign trade surplus reaching EUR 2 billion* in the first half of 2001, compared to 1 billion in 2000. It is expected that these positive trends will be maintained, with GDP growth reaching 7.3 % in 2001. The national currency is stable and has even strengthened against the dollar. National Bank reserves are growing, reaching EUR 2.5 billion in August 2001. In the absence of external borrowing, external public debt declined by EUR 700 million, reflecting debt repayments.

The continuation of this positive trend is, however, uncertain. Major obstacles to sustained growth are the incomplete structural transformation of the economy, including the weak banking system, and the still unpredictable investment climate, with often unclear laws and regulations and uneven and arbitrary enforcement. The economy still suffers from a lack of

* Figures in EUR are converted from USD as necessary, at rates applicable in July 2001

functioning market institutions and weak legal protection and there are many barriers to foreign traders and investors. In spite of some improvements since 2000, foreign direct investment in Ukraine remains low, with a cumulative total of USD 4 billion over 1991-2000, a very small amount compared to Central European countries (e.g. over USD 30 billion in Poland and 20 billion in Hungary). Apart from formal restrictions related to land ownership, FDI is hampered by, e.g. interference by the authorities in enterprise operation and advantages given to state-controlled firms. Ukraine has started to address this problem by putting in place new legislation on competition and monopolies. In such a context, physical assets are outdated and inadequate. Industrial equipment (in the energy sector in particular), transport infrastructures, social infrastructures (health, education, social services) have not been renovated and are decaying. Shrinking budgetary resources and unclear definition of responsibilities have led to deterioration in social service delivery. With the onset of economic reforms, many responsibilities, in the past covered by the central government, were passed on to local authorities that lack the resources to take on these functions. The framework law on social protection has now prepared the ground for the establishment of a sustainable system of financing social and health care services in the country. Most of the legislation needed to modernise the system is now in place, with the notable exception of medical insurance, and would require comprehensive support for their implementation. At the same time, living standards have fallen dramatically in Ukraine during the whole period of the 1990s. The incidence of poverty has increased considerably to the point that 27 % of the population is now believed to be below the poverty line. A fifth of the population is working part-time or is on administrative leave and formal unemployment has risen to 11 %. The drastic decline in social benefits has also resulted in a high proportion of households living in extreme poverty.

The worsening health situation is illustrated by the decline in life expectancy, from 71.0 in 1989 to 68.1 in 1999, with the reduction for females being from 75.2 to 73.6, and for males from 66.2 to 62.7. The population of Ukraine has been in steady decline, not only because the death rate has increased, but also because the birth rate has decreased sharply. Besides the increasing burden of chronic non-infectious diseases, several infectious diseases have become more common. Tuberculosis has re-emerged and sexually transmitted diseases including HIV/AIDS are expanding rapidly.

After the collapse of the old social protection system, mainly due to financial constraints, Ukraine has only made tentative steps towards the establishment of a modern delivery system of social and health services. Governmental services have not systematically adapted to meet the changes. The significant deterioration in health and social indicators confirms the need to address the problems of vulnerable groups such as children, the disabled and the elderly. However, some positive changes can be noticed in the social sphere. Real income has started to grow in 2001, while the 2001 budget sets up not only payment of wages and other social arrears, but also foresees a 25 % increase of salaries in the public sector.

3.3 Progress of reforms

Since 2000, some long-delayed **legal and institutional reforms** have been adopted, including the budget code. The **judicial reform** agenda encompasses a complete overhaul of the pre-trial and court system. Very substantial draft legislation is still pending, including the civil, customs, tax, land and commercial codes. There are some doubts about the co-ordination and consistency of this legislation (for example, the civil and commercial codes reflect different concepts of the state's role in the national economy), but overall its adoption would be of great benefit for the Ukrainian economic system.

Administrative reform has so far been unsatisfactory, but an ambitious programme was launched in 2000. The main bottlenecks are weak leadership on the reform process and difficulties with subordinate bodies of the reorganised ministries. Progress has been made, in increasing the policy role of ministers, channelling political decisions through governmental committees, and restructuring the Government Secretariat. Little has been achieved on another key issue, the relationship between the centre and the regions. Unlimited centralised management still prevails, favouring regional autarky and preventing a redistribution of responsibilities or budgets, although it is recognised that regional bodies and local self-government have a key role in the economic reform process and in the establishment of a favourable business and investment climate.

Ukraine has been making hesitant progress on **PCA** implementation and **WTO** accession. In certain cases, Ukraine's poor performance is the result of poor institutional and administrative capacity. The Ukrainian request for WTO accession has been under negotiation since 1994. The Working Party meeting in July 2000 restarted a process that had been stalled for over two years, due to incompatible trade measure and policies. In 2001, progress towards accession has been mixed, with an agreement on bilateral market access issues getting closer, but legislative compliance with WTO rules still far from being satisfactory. The Working Party of June 2001 could only take note that important work is still needed in many areas, if Ukraine wants to achieve serious progress during 2002. Further progress towards membership of the WTO is also a pre-condition for using the full potential of the PCA. Only few officials in the relevant ministries fully understand the PCA and WTO requirements. However, these weaknesses should not be allowed to overshadow the willingness in many cases to bring systems into line with the PCA. A good example is standards and technical regulations, where Ukraine wants to harmonise with the EU, and has launched an ambitious programme, which will help Ukrainian exporters to have better access to the enlarged EU, as well as assisting EU operators in Ukraine.

Since 2000-2001, Ukraine's initially poor record of respect of PCA rules has somewhat improved. Progress has been made with the conclusion of a new agreement on trade in textiles, which has resulted in the removal of quotas for Ukrainian exports to the EU, and which should encourage investment in the sector. Very contentious areas for PCA implementation have, however, remained, e.g. regulation of the automobile sector, discriminatory trade-related incentives granted to some companies, and a failure to protect and enforce intellectual property rights.

Although **private sector development** remains a priority, Ukraine has lagged behind in its privatisation programme. Restrictive obligations have often deterred both Ukrainian and foreign investors. In addition, many companies put on sale were unattractive for investors and the sales mechanism has not always been transparent. The privatisation process has created oligarchic structure of the economy and has generally failed to stimulate comprehensive restructuring of formerly state-owned enterprises. Inter-enterprise arrears, barter, tax exemptions, and tax arrears are still frequent, indicating a lack of market discipline and little incentive to restructure. Enterprises also lack knowledge in corporate finance, marketing and sales, and overall business planning. An ambitious management training programme was launched in 2000, in order to train a critical mass of managers to support the reform process in Ukraine, through in-country re-training and internships in foreign companies. There is an emerging consensus in Ukraine on the significance of entrepreneurship as the driving force for transition and innovation, as well as on the need for having an equal playing field, as a pre-condition for successful **promotion of SMEs** (small and medium-sized enterprises). The regulatory picture improved in 2000 with the adoption of two laws on support to SMEs, creating favourable conditions and environment for business development.

The **banking sector** is underdeveloped and unable to support economic modernisation and growth. There is a need for restructuring the sector, improve its regulatory environment and create new targeted financial schemes. However, several legal acts were approved in 2000, in particular the new law on banking, which determines the structure of the banking system, its supervision and regulation, as well as the economic, organisational and legal basis for restructuring and liquidation of banks and other financial institutions.

Ukraine has great potential in **agriculture**. Although recent reforms are already beginning to show some impact, further reforms are needed before the potential revitalisation of this sector can be fully realised. While its privatisation has become an irreversible process, the key problem for agricultural production remains land ownership. The new Land Code and Mortgage Law should, however, regulate the land property situation and facilitate agricultural finance. Further massive restructuring is required at the farm level, while farm organisation and agricultural credit remain major bottlenecks.

In 2000 the Government undertook important reform measures in the **energy sector**, reducing non-payments and payment arrears in the electricity sector, conducting privatisation of energy distribution companies, and developing energy-saving programmes. However, Ukraine's energy situation remains precarious, with heavy dependence on oil and gas imports, inefficiently mined coal and obsolete thermal power plants. Energy consumption per unit of GDP is still several times higher than in Western Europe, and Ukraine has not yet been able to adopt a market-oriented, long-term energy strategy. It will be crucial for Ukraine to continue to reform the energy sector in line with EU practice. In addition to the electricity sector, the coal and gas sectors should also be further reformed.

In the area of **social reform**, several major laws and regulations were passed in 2000, promoting for instance a clear separation of functions between bodies dealing with policy setting, financing, health care provision and regulation; increased decentralisation of responsibility towards the regions and municipalities; market approaches and enhanced competition for the delivery of health care; and implementation of compulsory and voluntary insurance schemes. Most required pieces of legislation for the establishment of a sustainable system of financing of social and health care services are now in place (with the exception of medical insurance), but they require support for their implementation.

3.4 Sustainability of current policies

The change of government in April/May 2001, the up-coming parliamentary elections (early 2002) and the damaged position of the President cast some doubts on Ukraine's ability to implement a full political and economic reform agenda and to sustain the relatively successful policies of 2000-2001. The new Government appointed in May 2001 has, however, announced continued strong commitment to the essential reform policies.

On the macro-economic side, the main threats are inflation and an increase in the money supply, and a squeeze on exports, if key export markets become more restricted (for example, Russian limits on imports of Ukrainian pipes). Lower revenues from privatisation, as well as pressure for pre-election spending could threaten budgetary performance. Maintaining the momentum for higher cash collection in the electricity sector and restructuring of the banking sector would need to remain crucial priorities.

Given Ukraine's need for continued macro-financial assistance in order to meet its debt service obligations, it is essential that the IMF, the EU, the World Bank, EBRD and other partners keep Ukraine engaged in policy reform programmes which are strong enough to justify further lending. An IMF-backed reform programme is also a precondition for the effectiveness of the international loan package for the completion of the K2R4 nuclear power plants.

3.5 Medium term challenges

The main challenges for Ukraine are to consolidate and extend democratic, civic and market institutions, and to develop a national consensus and a political culture around some fundamental concepts of statehood and social and economic organisation. Some solid foundations are in place, including political stability, peaceful and constructive foreign policies, and a democratic constitution. However, the freedom of the press and the independence of the judicial system remain weak and curtailed by competing political elite interests. Public opinion has had little influence on policy-making, and politics remain largely the concern of a small "elite". Ukraine needs to foster a more open and structured political debate, with public opinion playing a greater role in the determination of Ukraine's political agenda, creating a stronger constituency for reform and democracy, respect for the rule of law and good governance. The year 2001 has brought a mix of positive and negative signals: political scandals, accusations of misrule and corruption, continued conflicts of competence between the executive and the legislature on the negative side; on the positive side, there has been a degree of consistency in the reform process with short as well as long term results, and the present Government declare itself committed to continued reform efforts. The forthcoming legislative elections will no doubt be a test: the fragile progress recently recorded could be strengthened or could unravel.

Continuation of the economic growth achieved in 2000-2001 is far from certain. It is too early to decide whether this achievement marks the beginning of a medium-term trend. Ukraine benefits from a high quality workforce at low labour costs, which would form significant comparative advantages in an open economy. Whilst some sectors have successfully started on a development path based on market economy models (e.g. agro-industry, textile, other light industries), these remain massively overshadowed by the cartelised heavy industrial sectors built under the Soviet system and maintaining their commanding influence on the determination of government policies. In addition, fear of economic and social consequences of deregulation, restructuring, or privatisation further inhibit the acceptance of liberal market models. One medium term challenge for Ukraine is to find the policy path that can permit the shifting of resources away from moribund and subsidy-hungry sectors to those areas with higher growth potential and dynamism. An element of such a policy would be a much more dynamic liberalisation of the economy coupled with the establishment of an adequate social safety net (including job conversion schemes, training, and unemployment benefits, etc). Millions of workers in the energy, heavy industry and agriculture sectors are potentially redundant in their current jobs. Only a resolute reform policy path accompanied by economic growth and new social policies could solve this transformation problem.

In addition, the lack of willingness in the top leadership to deal effectively with recent political scandals and with the issue of the division of power between the President, Parliament and Government, make the prospects for further democratic and economic reform uncertain. While public opinion, civil society and more consolidated political parties are emerging, the direction of change will depend much on the conduct of the next parliamentary elections and the political battle for the succession of President Kuchma. Unity and leadership will be required to improve the legal, administrative and organisational framework, so that political parties, the media, NGOs and public opinion can play a more active role in determining Ukraine's future.

4. Overview of past, ongoing and planned co-operation

4.1 Past and on-going EC assistance

Since 1991, Tacis has been one of the leading technical assistance programmes supporting the transition process in Ukraine. More than EUR 1.0 billion have been allocated in the form of

national action programmes and through multi-country initiatives or miscellaneous support activities, with special attention given to nuclear safety (Annexes 3 and 4). The national programmes have targeted key areas for a successful transition: the adoption of adequate economic policies; the implementation of structural reforms (institution building and regulatory framework); and the restructuring of the economy and the development of the private sector. They have covered human resources development, enterprise restructuring, SME development, finance, agriculture, energy and the environment.

A country programme evaluation conducted in 1998 and a review of Tacis performance 1996-1999, recently completed by the Tacis Ukraine monitoring team, showed that policy advice projects had not resulted in a real improvement in Ukrainian economic policies, with the exception of a few sector policies (financial sector, energy savings), mainly because of the absence of a strong policy dialogue and acceptance of agreed reform directions. Regarding structural reforms, Tacis impact had also been limited for the same reasons. Impact had been greater in training, transfer of know-how and institution building with substantial benefits for individual project partners. Tacis had for instance contributed to strengthening individual institutions, such as the Ministries of Transport and Energy, the State Environmental Inspectorate and the National Bank of Ukraine, and to organisation and training of key personnel within the judiciary. The impact had, however, often been limited by the lack of an overall reform strategy. The main instrument in training and education had been the Tempus programme, with EUR 29 million allocated between 1994 and 2000. Private sector development had shown mixed results as well. While Tacis contributed efficiently to privatisation programmes, weak macro-economic policies and structural reforms had limited enterprise restructuring.

Following the evaluation, Tacis has progressively focused on a limited number of areas, increasingly agreed in a dialogue-driven approach linked to the PCA implementation process. Since 1996, much of this advice has been provided through the Ukrainian-European Policy and Legal Advice Centre (UEPLAC), with additional PCA-related projects dealing with certification and standards, customs, intellectual property rights and statistics. At the same time, an improvement of the reform policy environment occurred. Tacis refocusing culminated in 2000, with the adoption of a new Regulation and of the Indicative Programme 2000-2003, which identified three priority areas of a cross-cutting nature: support for institutional, legal and administrative reform; support to the private sector and assistance for economic development; support in addressing the social consequences of transition. Within this framework, the 2000 and 2001 programmes focus (i) on the reform of arbitration courts and legal training in EU law; on adaptation of the legal environment to the requirements of PCA implementation and WTO accession, including in the field of technical regulations and standards and competition rules; on improvement of state budget management; on improving border management; on development of higher education institutions (Tempus) and NGOs; (ii) on restructuring larger enterprises and on training Ukrainian managers; on improving the SME environment and access to micro credit; on the promotion of International Accounting Standards; on the reform of the gas and electricity market; and on funding a fuel supply programme; (iii) on preventive and primary healthcare; on tuberculosis prevention and control; on health management in selected regions; on the reform of social and health financing and insurance schemes.

The Productivity Initiative Programme, and its successor, the Managers' Training Programme (MTP), have provided since 1994 internships in EU enterprises for Ukrainian managers, contributing to the promotion of investment and trade. Partnership programmes between EU and Ukrainian institutions, from both the public and non-governmental sectors, have also been

increasingly promoted. In parallel, co-operation with other donors has been strengthened at the programming and implementation levels.

Tacis assistance related to **nuclear safety** has been very significant and contributed to the closure of Chernobyl (see page 4). Other Tacis initiatives, complementing country programmes, have been particularly relevant for Ukraine, such as the **Regional** (formerly Interstate) and the **Cross-Border Co-operation** Programmes, which are the subject of separate strategy papers and indicative programmes. They focus on issues best addressed at a multi-country level, such as energy and transport networks (INOGATE and TRACECA, where Ukraine is an active participant), environment (particularly nature conservation and water management in the Danube basin, the Carpathian region, the Black Sea), as well as issues which are particularly relevant for Ukraine as a transit country, such as justice and home affairs (trafficking of women, money laundering, etc.) and modernisation of border crossings.

4.2 Other EU policies and instruments

Trade. Although EU trade flows remain marginal, the potential of the Ukrainian market should not be underestimated. Trade promotion and the removal of trade barriers will become key elements in the relationship between the EC and Ukraine in the coming years, particularly after EU enlargement. The main instruments are Ukraine's accession to the WTO and the PCA, as explained in 1.1, implementation and full use of which will be increasingly supported by technical assistance.

The **European Initiative for Democracy and Human Rights** (EIDHR) is the major instrument of assistance to democracy, human rights and civil society in Ukraine, a focus country for 2002-2004. This programme operates primarily through partnerships with NGOs and the Council of Europe. Together with the Tacis-funded LIEN (Linking Inter-European NGOs) in the social sector, it has been the main EC action supporting the development of NGOs. The EIDHR programme covers a range of activities in the areas of human rights protection, democracy and good governance; promoting independent and responsible media and free press; strengthening the rule of law, the independence of the judiciary and a humane prison system; supporting administrative accountability and combating of corruption. Maximum complementarity will be sought with related initiatives carried out on a larger scale under Tacis, in the field of judicial reform, civil society development and media independence promotion.

Humanitarian Assistance. Since the mid-nineties, ECHO has provided humanitarian assistance to the most vulnerable strata of society, addressing in particular their food and medical needs. Aid has been channelled through international NGOs, the Red Cross and UNHCR. In line with its refocusing on the core mandate of emergency relief, ECHO has completed its gradual phasing out in 2001, with the priority given now by the EC to Tacis-supported systemic reforms in the social sector. In this connection, a final funding of EUR 0.92 million was granted, allocating 0.52 million for basic nutritional support to vulnerable groups and 0.4 MEURO for special assistance to the victims of the floods in Western Ukraine.

Macro-financial Assistance. With the third macro-financial loan of up to EUR 150 million approved in October 1998, total EU exceptional macro-financial assistance to Ukraine reached EUR 435 million since 1994. The first tranche of the third loan (EUR 58 million) was disbursed in July 1999 and conditions for the release of a second tranche of 42 million have been agreed.

Euratom Loan. The Commission approved in December 2000 a Euratom loan (EUR equivalent of USD 585 million) to co-finance the completion of Khmelnytsky 2 and Rovno 4 units at acceptable safety level. The EBRD has also approved a USD 215 million loan for the same project. Both decisions, as well as the disbursements, are however subject to certain conditions to become effective.

Research and Technology Development. The EC has spent about EUR 60 million for research projects for Ukraine (as well as Belarus and Russia) on the consequences of the Chernobyl accident. Two other Euratom-Ukraine Co-operation Agreements (on nuclear safety and on controlled nuclear fusion) were signed in 1999. Since 1998, the Commission has contributed about EUR 10.0 million from Tacis to the **Science and Technology Centre of Ukraine**. Hundreds of scientists, who had previously been working in weapon development, were involved in peaceful research under the auspices of the centre. Ukrainian scientists are also participating in the EU's 5th Framework Programmes, with a strong involvement in INCO-Copernicus. Together with activities funded by INTAS (for fundamental research), about 1200 Ukrainian teams have been linked to EU research projects. Ukraine has repeatedly expressed its wish to establish a closer relationship with the Community in the field of Science and Technology. In October 2001, the Council authorised the Commission to negotiate a S&T agreement with Ukraine, which should pave the way for its stronger integration in the new Framework Programme.

INTERREG is a Community Initiative aimed at promoting interregional co-operation within the European Union, financed by the Structural Funds. It is however also a way to promote co-operation across the relevant EU external borders and will be of increasing significance for Ukraine with the enlargement of the EU. Contrary to Tacis, its budgeting is multi-annual and the responsibility for project selection and implementation lies with the Member State(s) concerned. In order to increase complementarity between both programmes, guidelines have been recently issued to facilitate the double application process and link the two selection procedures. Although this concerns primarily the Tacis Cross Border Co-operation Programme, co-ordination will also be essential in the future for components of Ukrainian national projects with a strong cross border impact.

4.3 Member States' and other donors' assistance

Over the period 1996-1999, Ukraine has benefited from around EUR 157 million of bilateral financial assistance from EU Member States (credits actually disbursed, not including 8.6 million in debt cancellation). Member States have also significantly contributed to multilateral assistance programmes, e.g. EBRD (EUR 0.3 billion), World Bank (EUR 1.5 billion) and the IMF (EUR 1.8 billion).

Substantial technical assistance has been provided, particularly by Denmark, France, Germany, Italy, the Netherlands, Sweden and the UK, in areas such as public administration reform, rule of law, health reform, SME support, industrial restructuring, food and agriculture (see Annex 5). Regular exchanges of views with, and information from, the Commission, primarily in Kiev, have led to a good level of co-ordination of the activities on the spot. Consultations during the 2002-2003 programming process have further improved the situation and have reinforced the complementary of EC and bilateral activities. Member States present in Ukraine will continue to support economic restructuring and investment promotion, with increasing emphasis on the development of civil society and social and health issues, while EC assistance will focus on border management, legal, judicial and administrative reform, as well as trade and investment promotion in the context of the PCA.

The **European Bank for Reconstruction and Development (EBRD)** has a portfolio of 38 signed projects amounting to EUR 1.2 billion. The EBRD's revised strategy for Ukraine has four major components: (i) meeting SME needs and financial sector strengthening; (ii) commercialisation and structural reform of public utilities, services and improvement of energy efficiency; (iii) nuclear safety and K2R4; and (iv) restructuring of the enterprise sector. The EBRD is currently the main source of funding for SMEs, through the National Bank of Ukraine

for on-lending via approved local banks to private businesses. Under the Tacis programme, the EC/EBRD Investment Preparation (“**Bangkok**”) Facility has funded about EUR 10 million of technical assistance that has prepared or accompanied about EUR 0.6 billion of actual EBRD investment in Ukraine. The total investment leveraged (taking into account bilateral donors and private co-investment) is estimated at some EUR 2.6 billion. Co-operation between Tacis and EBRD on policy and sector dialogue, as well as in the planning and programming of assistance has been significantly strengthened in the process.

In a difficult and uncertain macro-economic and political situation in Ukraine, the focuses in particular on the following key priorities: (i) promoting private sector activity; (ii) restructuring the public sector; (iii) ensuring the social sustainability of transition; and (iv) ensuring environmental sustainability. Since 1992, the **International Bank for Reconstruction and Development** (World Bank) has lent about USD 3 billion to Ukraine for 21 adjustment loans (financial sector, enterprise development and coal sector), assistance projects and guarantee operations. Due to mixed progress in its previous sector approach, the World Bank Country Assistance Strategy for 2001-2003, designed with the participation of civil society, focuses on systemic and institutional reforms, with the aim to support sustained economic growth, poverty reduction and improved environmental protection. In particular, the first Programmatic Adjustment Loan (PAL), approved in September 2001, will cover the following areas: fiscal and financial discipline; public sector accountability; regulatory framework for enterprises, including in energy and telecom; property rights; social and environmental risk management. Upon fulfilment of concrete outcomes, two other PALs are foreseen in 2002 and 2003, bringing the total budget for this initiative to close to EUR 870 million. Additional loans are under consideration in the fields of TB/HIV, health and education reform, modernisation of the public administration (including tax), coal sector restructuring, land reform and rural credit, etc. The **International Finance Corporation** (IFC) is taking the lead in financing commercial activities.

The **IMF** agreed an Extended Fund Facility programme worth USD 2.2 billion in October 1998. This programme had to be interrupted, but was resumed in September 2001, following Ukraine compliance with IMF conditionality related to export duties, budgetary policy and bank reform. Resumption of the programme has been a condition for international funding of the completion of K2R4, including the substantial Euratom loan.

Ukraine receives more US assistance than Russia, with a focus on private sector development, good governance, health and social protection, but also on anti-corruption and justice and home affairs issues. **USAID** has been the largest donor for technical assistance in the private sector, with a concentration on business development (including the establishment of 15 business centres and 3 incubators), economic restructuring (tax reform, commercial law, financial markets development), agriculture (privatisation and credit) and energy (including privatisation of power distribution companies).

5. EC response strategy

As a major immediate neighbour of the enlarged EU, Ukraine deserves our full attention and an efficient and coherent use of our co-operation instruments.

The weaknesses and uncertainties of Ukraine’s political and economic situation call for continued strong EC engagement in order to support democratic and reformist forces, and to strengthen the country’s independence and European links. Co-operation should seek to build bridges across the future eastern borders of the EU and allow Ukraine to benefit from the advantages of EU enlargement, through improved **border management**.

The Ukrainian Government has requested Tacis to play a major role in supporting Ukrainian compliance with the PCA and the WTO, through support in developing appropriate legislation and in effectively implementing it. Full use should be made of the potential of the PCA to continue to emphasise approximation of Ukraine's trade-related legislation to that of the EU, in particular in the fields of protection of intellectual property rights, standards and conformity assessment, and a progressive and selective integration of the EU "acquis" in other regulatory areas. In the trade and economic field, this will also encourage the so far underdeveloped **commercial exchanges** and **investment** links and help to improve the conditions for economic recovery and growth in Ukraine. A stable macroeconomic environment remains an essential prerequisite for sustained and equitable economic growth. The EU intends to continue its support to this objective through exceptional macro-financial assistance consistent with loans extended by IFIs. The Commission intends to submit to the Council in the near future a proposal to provide further macro-financial assistance to Ukraine at relatively long maturity terms. The new assistance would amount to about EUR 110 million, including the part that remains un-disbursed from the 1998 loan facility.

The EC should also give priority to continued development of a pluralistic **democracy**, with a well-functioning public administration, judiciary, independence of the media and civil society, as well as **market economy** reforms. Support to the **social reform** process should be high on the agenda, to create a stronger acceptance for further economic reform and to reduce poverty and alleviate the social impact of transition.

At the same time, enlargement is bound to make the EU more sensitive to "**soft**" **security** threats from Ukraine which need to be addressed: environment (nuclear safety and related issues, including follow-up to the closure of Chernobyl and safety of Ukraine's nuclear power plants; climate change and Kyoto protocol; Black Sea protection); Justice and Home Affairs (judicial reform and combating organised crime, corruption and illegal immigration); public health (transmissible diseases). Although the closure of Chernobyl has finally allowed the EU to move towards a more balanced agenda vis-à-vis Ukraine, energy policy reform will remain essential for Ukraine's economic and political future (including improved cash collection, follow-up to privatisation and reform of the gas market, renewable energy development and energy efficiency), as well as for safe and efficient transit of energy to the EU, and should remain a priority for EC-Ukraine co-operation. These priorities were confirmed during the EC-Ukraine Summit of September 2001. Another important issue is transport and telecommunications, and the integration of Ukraine's infrastructures into European networks. These areas should be addressed under the PCA and under regional, cross border and other horizontal programmes.

The overall EC response strategy 2002-2006 for Ukraine will therefore focus on the improvement of the trade and investment climate and on strengthening the capacity of the Ukrainian economy to benefit from EU enlargement; on judicial reform and justice and home affairs (including border management and migration questions); on the promotion of democratic principles and civil society development, through partnership and exchange programmes with EU organisations and institutions; on the alleviation of the social impact of transition and support to the social reform process; and on energy- (energy sector reform, transport and transit, energy efficiency and renewable energy resources) and environment-related issues (mainly water management and environmental standards).

On the basis of the above analysis and of the areas of co-operation identified in the Council Regulation No 99/2000 "**support for institutional, legal and administrative reform**", "**support to the private sector and assistance for economic development**" and "**support in addressing the social consequences of transition**", the National Indicative Programme 2002-

2003 will focus on the following issues:

- Support to the reform of **public administration** and of the **judicial system**, essential for creating a culture of democratic behaviour, respect of individual and economic rights, and a framework of market economy institutions fostering economic reform, industrial restructuring, good corporate governance and improved investment climate.
- Improvement of Ukraine's capacity to manage its **borders**, in order to facilitate the movement of goods and people with the enlarged EU and to combat illegal activities, such as illegal migration, trafficking in human beings and drugs. Improved border management and infrastructures will also contribute to establish closer economic and political links between Ukraine and its neighbours.
- **Business, trade and investment promotion** remains the key priority of the economic reform programme. In addition to macroeconomic stability, private sector growth and enterprise development need to be stimulated in order to achieve economic growth. Enterprises from the enlarged EU will be Ukraine's natural partners for trade, industrial co-operation and direct investment. It is in the EU's interest to improve the framework for enterprises, including the banking sector, and to facilitate privatisation, restructuring and the creation of new enterprises.
- The EU should support the development of **civil society** both under Tacis and under the European Initiative for Democracy and Human Rights, co-operating in particular with non-government sectors, e.g. lawyers, journalists, trade unions, academics and students. Particular attention should be given to media issues and to the support and observation of democratic parliamentary and presidential elections.
- Support to the Government in addressing the **social consequences** of transition using EU models and experience. The Government's programme underlines the importance of policies which address "quality of life" indicators, with particular attention being paid to the need to ensure adequate provision of public health services. It is clear that with declining living standards affecting an increasing proportion of the population, there is a growing risk of rejection of market reform policies. Improving health systems and anti-poverty social systems in neighbouring Ukraine is also in the EU's interest.

Other crucial issues, such as integration into European transport networks, information society development, energy (particularly gas) transit (pipe-line audit and safety), environment (water management and Black Sea pollution), JHA (asylum questions, fight against drug trafficking, organised crime and money laundering) will all be considered as a priority under **Cross-Border** and **Regional Co-operation** programmes, focusing on "**development of infrastructure networks**" (including TRACECA and INOGATE), "**promotion of environmental protection and management of natural resources**", as well as **justice and home affairs**. Significant additional assistance will also be provided under the **Nuclear Safety** Programme. Particular attention will also be paid to opportunities for achieving horizontal environmental benefits in the activities proposed under the Indicative Programme 2002-2003, especially as Ukraine will host the 5th Pan-European Conference of Environment Ministers in Kiev in May 2003.

6. National Indicative Programme 2002-2003

6.1 Support for institutional, legal and administrative reform

During the period 2002-2003, the overarching priority will be to help Ukrainian legislation and institutions comply with the requirements of a market economy, on the basis of PCA and WTO

provisions, as well as Ukraine's programme for approximation to the EU. In parallel, the strengthening of democratic structures and civil society will also be a top priority for Tacis, including support to the reform of the judiciary and of the public administration. Border management issues will be given a particular attention in view of future EU enlargement.

6.1.1 Legal, judicial and administrative reform

6.1.1.1 Background and justification

Under the Presidential activity programme 2000-2004, a comprehensive reform of the Government structure has been launched to improve public governance and strengthen administrative structures. Further efforts are required to streamline administrative procedures and support the effective implementation of laws. They can only be successful if local levels of government are strengthened and the respective competence of the centre and subsidiary levels of administration are clarified in a number of areas, such as fiscal and social affairs. Achieving high standards in the judicial system will be crucial for Ukraine's democratic and economic development. Considering Ukraine's objective of rapprochement with the EU and of further integration into the world economy, the focus of EC assistance in legal, judicial and administrative reform will be on PCA- and WTO-related matters. Tacis co-operation will also be limited to areas and institutions where a clear will for reform has been ascertained, i.a. through the PCA institutions.

6.1.1.2 Objectives

Main Objective

- To adapt legislation, public institutions and the judiciary to the requirements of a democracy and a market economy.

Specific Objectives

- To help Ukraine meet WTO requirements and to use the full potential of the PCA, including legislative approximation, in order to promote trade and investment links with the EU;
- To strengthen the capacities of central and regional Ukrainian authorities to implement economic and social reforms;
- To strengthen the independence and competence of the judicial system.

6.1.1.3 Expected results

- Enhanced capacity in the Ukrainian administration to deal with PCA and WTO matters, leading to an acceleration of Ukraine's integration into the world economy and to rapprochement towards the EU. In particular, enhanced capacity for enforcement of legislation in key areas of competition, intellectual property rights, technical regulations, conformity assessment and standardisation procedures to comply with PCA obligations.
- More supportive regulatory environment, improved business climate through removal of obstacles to trade. Officials trained and key public institutions strengthened in areas of administration crucial for the WTO and the PCA. Enhanced security and efficiency in the energy sector and of the transportation network.
- Strengthened and more transparent administrations in selected regions, with an improved framework conducive to business and civil society development.

- Enhanced capacity of judges and court administrators to handle cases efficiently and in a timely fashion.

6.1.1.4 Description of programmes

- Continued support to the UEPLAC. It will focus on the provision of medium-term strategic policy and legal advice to assist the Ukrainian authorities in fulfilling the PCA. In addition to trade and investment-related matters, it would also cover energy, transport and environmental issues of common interest. It will include training of Ukrainian staff to develop sustainable local capacity to provide independent expert advice on PCA implementation. A rapid response capacity should be maintained, to provide immediate, short-term advice. The Policy Advice Programme will be used as well for larger high-level policy advice actions in trade and investment, and also in energy, transport and the environment.
- Specific additional technical assistance actions will be provided in key areas of PCA implementation and determined by the PCA process, such as technical regulations, state aids, transport and labour market regulations to make them compatible with EU and WTO requirements. Particular attention will be paid to the energy sector reform and the support for addressing the security of the energy network, energy efficiency and the renewable energy resources, including legislative alignment. Attention will also be paid, in complement to other programmes, to Justice and Home Affairs issues related the fight against organised crime and money laundering. For the latter, legislative compliance with international standards will be required.
- Technical assistance (policy advice and training) for the establishment of a regional policy in Ukraine, addressing major regional disparities, in particular industrial restructuring and cross-border co-operation. Assistance in selected regions in order to develop the capacity of local authorities to design and implement reform policies conducive to business, investment and social development. This will include supporting municipalities' efforts to improve the quality of public services, e.g. through energy saving and water management, and training on rule of law and anti-corruption issues. Results will be used and disseminated, particularly to western border regions, but also at the central level, where support for civil service training development will be continued.
- On the basis of the 2000 project, additional assistance will be provided for the implementation of comprehensive judicial reform. Given that the judiciary is the weakest pillar of power, these activities should have a scale sufficient to achieve a major impact. Relevant training institutes, as well as selected regional courts, will be assisted in designing and implementing a large training and re-training programme for judges and their assistants, covering in particular commercial law (competition and bankruptcy issues, protection of private contracts, ownership rights and shareholders' rights), as well as the protection of individuals and the organisation and administration of justice. New curricula will be developed and trainers trained, including for using appropriate information technology. The programmes should comprise seminars on rule of law and anti-corruption principles.
- Support to individual institutions (State bodies dealing with PCA/WTO, courts) could be provided using the Institution Building Partnership Programme, covering also Statistics and Customs. The involvement of EU candidate countries will be encouraged.

6.1.1.5 Conditionality

Effectiveness of this Tacis assistance is conditional upon Ukraine's reforms of administrative structures and practices and sufficient political commitment and administrative capacity to ensure implementation and enforcement.

Tacis assistance to support PCA implementation will be conditional upon the general respect by Ukraine of PCA provisions. Support for Ukraine's accession to the WTO is conditional upon Ukraine's continued and demonstrable commitment to make progress on this issue.

The successful implementation of the judicial reform component is conditional upon the commitment of the central bodies to effectively strengthen the rule of law in Ukraine, particularly the Government (responsible for financing the legal infrastructure) and the judiciary. The effective enforcement of the new laws on the structure of the judicial system would be a good indicator of the political commitment to reform it.

6.1.1.6 Indicators

- Significant progress made in ensuring that Ukrainian legislation, and its implementation, is compatible with WTO requirements and with PCA articles 49-51 and 56 by 2005 (precise indicators to be developed at project level, in line with the work of the PCA sub-committees);
- Progress made in strengthening Ukraine's energy sector and its role as a transit country;
- Training of 200 judges per year and implementation of new training methods for the judicial system as a whole.

6.1.1.7 Indicative budget: EUR 21 million (10 in 2002 and 11 in 2003)

6.1.2 Border management

6.1.2.1 Background and justification

The development of efficient border controls is vital for trade and investment, for the smooth movement of people, as well as for combating security risks such as illegal migration, trafficking of human beings, smuggling of drugs, etc, particularly in a context where after enlargement Ukraine will share a common border with the EU. Modern border infrastructure and management is a basic tool to assist in trade facilitation, while increasing the ability of the enforcement agencies at the frontiers to detect unlawful activity. It is also key to the economic and social development of border regions and to the establishment of closer economic and political links between Ukraine and its neighbours and the whole of the EU.

Ukraine, as an important transit country, should also control and monitor its borders with Belarus, Russia and Moldova, where technical assistance will be provided as well. A comprehensive border management and surveillance strategy should be promoted and training and equipment provided to the relevant services at a national level. Under the Regional and the Cross-Border Co-operation programmes, assistance is provided to Ukraine for modernising crossing facilities and strengthening border management, but significant additional assistance will be made available, on the basis of the recent update of the 1996 border crossing study.

6.1.2.2 Objectives

Main Objective

- To improve the overall border management system in Ukraine with a view to facilitate movement of goods and people, while combating illegal activities

Specific Objectives

- To support the efficient operation of the services responsible for border control;
- To improve border management legislation, as well as secondary legislation regulating the different border controls;
- To eliminate bottlenecks at key crossings at the western borders of Ukraine;
- To limit illegal activities, such as trafficking in human beings, drugs, illegal migration and counterfeiting.

6.1.2.3 Expected results and indicators

- Significant reduction in waiting times for freight and passenger traffic at the priority border crossings;
- Simplified and more efficient border control and customs procedures;
- Improved co-ordination with the services/agencies of the neighbouring countries;
- Reduction in illegal immigration, stolen vehicles, drugs smuggling, counterfeited goods and forged documents.

6.1.2.4 Description of programmes

- Training programmes for border guards, customs and other related agencies to provide their personnel with the relevant skills to carry out their task in line with international practices. This will include joint seminars with services of neighbouring countries, in areas such as illegal migration, stolen vehicles, counterfeited goods, forged documents and smuggling of goods. Training modules should address rule of law and anti-corruption issues. Advice and support to the development and implementation of legislation.
- Advice and support to legislation development and implementation, as well as to Border Guards and Customs services modernisation. Support to the exchange of information and co-ordination with the services/agencies from the neighbouring countries.
- Depending on needs analysis and prioritisation, additional assistance for the border services to carry out their tasks in the form of equipment and facilities. This may include computer and telecommunication equipment, x-ray units, document readers, etc.
- Construction and refurbishment of key border crossing points at the western borders of Ukraine, in particular with Poland, Hungary and Slovakia. The final selection will take into account the analysis of available studies and the selection made under earlier programmes. The border crossing Rava Ruska/Herebenne (PL) will have the highest priority (2002), while Berehovo/Beregsurany (H), Uzhgorod/Vysne Nemecke (SK, customs complex for freight traffic) and Jagodin/Dorohusk (PL, freight terminal, if additional support needed to complete works launched under previous programmes) would be considered in 2003 as well, on the basis of the following criteria: link with a Pan-European Transport Corridor or with the TINA Network; planned investments in transport infrastructures, traffic volume and delays including forecast; impact of accession of the CEECs to the EU; commitment to improve the situation on both sides of the border; contribution to regional and sustainable development, balanced support for different modes of transport; complementarity with other programmes (Phare and Interreg). While efforts should be concentrated on the western borders, technical assistance may be provided, as appropriate, to other borders as well.

The programme will work in synergy with other initiatives having an impacting on border issues, such as the Tacis CBC, Customs and JHA programmes.

6.1.2.5 Conditionality

Further allocations for border management improvement should be conditional on satisfactory progress with implementation of the 2001 activities. The successful implementation of the programme depends on the co-operation of the Ukrainian authorities and in particular of the main beneficiaries, the Customs Service and Border Guards Committee. The authorities have to commit themselves to the reform of law enforcement agencies. Key personnel has to be appointed and made available to follow up the project implementation. In the absence of such co-operation, the Commission may suspend or cancel all or part of the programme.

6.1.2.6 Indicative budget: EUR 22 million (15 in 2002 and 7 in 2003)

6.1.3 Civil society, training and education

6.1.3.1 Background and justification

The reform of training and education is an important element of the transition process to a democracy and a market economy governed by the rule of law. Promotion of democratic and market principles starts with the training and education systems, which also have to develop skills in relation to the requirements of the labour markets. Another essential component is the development of civil society and independent media.

6.1.3.2 Objectives

Main Objective

- To contribute to democracy, economic reform, and the rule of law through the development of civil society, and training and education systems in Ukraine.

Specific Objectives

- To modernise the structure and management of higher education institutions and to develop curricula according to national priorities agreed with the Commission (Tempus);
- To develop civic education in schools, in line with democratic values to which Ukraine subscribes;
- To facilitate the exchange of experience and know-how transfer between Ukrainian and EU civic institutions and mass media, deepening their role in society.

6.1.3.3 Expected results

- Strengthened training and management methods in the Ukrainian education system;
- In the framework of Tempus projects, up-grading of curricula and teaching materials, strengthening of the role of higher education institutions in the society, implementation of staff and student mobility programmes and development of professional skills in public and private institutions;
- Curricula on civic education in schools revised and approved by competent authorities, teachers trained, and modalities of civic education in Ukrainian schools agreed;
- Improved independence, professionalism and ethics of Ukrainian media and journalists, resulting in increased contribution to the formation of an enlightened public opinion; development and strengthening of professional associations;
- A broad range of national, regional and local non-governmental institutions strengthened and more proactive in their relationship with established authorities.

6.1.3.4 Description of programmes

Programmes will follow the lines developed in the Ukrainian education reform plan.

- Tempus aims at supporting the reform and restructuring of the Ukrainian higher education system and its adaptation to the new socio-economic needs, with a particular focus on the regions. It does so through interaction and balanced co-operation between institutions in the EU member States and the partner countries organised in consortia. Consortia create long term co-operation links between the partners, which should evolve towards issues such as academic recognition, credit transfer and development of joint-curricula. Priority areas of Tempus activities are jointly defined by the European Commission and national authorities in line with the areas of co-operation in the mainstream Tacis programme. Projects address in particular: (1) curriculum development and renewal in priority areas; (2) reform and modernisation of the structure and management of higher education institutions in view of strengthening their role in the society; (3) development of skills-related training to address specific higher and advanced level skills shortage during the economic reform, in particular through improved and extended links with industry; (4) contribution of higher education and training to citizenship and the strengthening of democracy. A particular attention has to be paid to the areas of journalism training, environment and energy.
- Media partnerships between the EU, Ukraine and, possibly, candidate countries will be supported to boost co-operation and know-how transfer. Traineeships will be provided for journalists, but also media managers, to gain practical on-the-job experience.
- Civic education in schools will be strengthened with the Ministry of Education and Science, including activities such as development of teaching materials, teacher training, strengthening of teacher and student organisations and competitive entrance exams for students.
- Support to civil society will be provided under the Institution Building Partnership Programme component, targeting grass-roots organisations (NGOs, including in the environmental field, professional and consumer associations, trade unions, cities, regions). The involvement of EU candidate countries will be encouraged.

6.1.3.5 Conditionality

One condition is the continuation of the education reform process in Ukraine, on the basis of the new national education concept, currently under development. Since the Tempus programme has a “bottom-up” and decentralised approach, working with committed higher education institutions, the risk of having it affected by changes in policy is limited.

Government support is required for progress in developing the legal and regulatory framework for the emerging civil society organisations.

6.1.3.6 Indicators

- Up to 500 students exchanged per year, number of curricula revised and teachers trained, share of higher education institutions participating in Tempus;
- Increase in numbers of registered NGOs playing an active role in policy formulation and implementation at the national, regional, and local levels;
- Number of media, institutions and individuals participating in partnerships.

6.1.3.7 Indicative budget: EUR 16 million (8 million per year)

6.2. Support to the private sector and assistance for economic development

During the period 2002-2003, the overarching priority will be to promote trade, investment and business development, in particular in view of future EU enlargement. The second area will focus on enterprise management, in order to improve company performances and make them more attractive to investors. The resulting economic growth will further contribute to integrating Ukraine into the world economy, and to approximation towards the EU.

6.2.1 Business, trade and investment promotion

6.2.1.1 Background and justification

Enterprise development, i.e. privatisation and restructuring as well as creation of new companies, remains the key priority of the Government's economic reform programme. While privatisation has become an irreversible process, privatisation of "strategic" companies has remained slow, and restructuring of privatised companies has been insufficient. Lack of entrepreneurial and managerial skills and lack of links with western, in particular EU, companies are also an obstacle to the development of competitive enterprises. While small and medium-sized enterprises should also benefit from improved legislation and market reforms, the SME sector is still underdeveloped. It is especially necessary to facilitate the access of SMEs to finance and qualified advisory services, including in agro-business. The underdeveloped state of the Ukrainian financial sector and its inability to provide sufficient credit, including to SMEs, continue to impede economic growth. A restructuring programme for Ukrainian banks and liquidation proceedings against insolvent banks are part of the financial sector reform policies agreed with the IMF.

6.2.1.2 Objectives

Main Objective

- To promote business and investment development in key economic sectors.

Specific Objectives

- To improve the performance of banks and enterprises through policy advice, restructuring and training;
- To consolidate and expand the SME sector by improving delivery of services and access to funding, including in the agro-business sector.

6.2.1.3 Expected results

- The culture of corporate governance and sound management is better accepted in Ukrainian enterprises. The need to restructure to adjust to evolving market conditions is better understood and put in practice. A growing number of enterprises have actually restructured and have improved their performance. The methodology and the results are widely disseminated. Local expertise in the necessary techniques is further developed.
- An adequate number of Ukrainian managers have received high quality training and have benefited from internships in EU companies. They are in a position to transfer know-how back to local business and to develop further co-operation with EU firms.
- Improved contribution of the Ukrainian bank sector to investment in the productive sector of the economy (including SMEs), through improved governance and management and more dynamic lending policies.

- Expansion of a viable and more profitable SME sector and subsequent job generation.

6.2.1.4 Description of programmes

- Provision of tailor-made advice in the field of restructuring and business development to industrial enterprises, with an emphasis on sectors of mutual interest to the EU and Ukraine, on a cost-sharing basis and compatible with market economy and good governance principles. Widest possible access and dissemination of results will be assured. The experience and best practices of the Tacis Enterprise Restructuring Facility will be used. For the energy sector (production, distribution and transportation), assistance to enterprises may be supported by policy advice to improve the legal and regulatory framework and promote investment.
- A Managers' Training Programme, financing internships in EU host companies, linked, where possible, to other restructuring assistance and complementing the recent Ukrainian initiative to re-train a critical mass of managers in-country.
- Demand- and market-oriented SME support programmes, including advanced business development services, implementation of favourable regulatory policies and facilitated access to micro-finance.
- Assistance to bank management in the design and implementation of activity reviews and strategic business plans on a cost-sharing basis and compatible with market economy principles. Special training modules could be foreseen for local commercial banks to raise lending skills including micro lending. Attention will be paid to money laundering issues.
- Further development of sustainable private advisory centres in the agri-business sector in order to improve the delivery of services to farms, while strengthening links with banking and non-banking lending institutions, and agricultural training and research institutions. This programme is conditional on improvement of the legislative environment.

6.2.1.5 Conditionality

The overall success of the programme will depend on the creation of an environment favourable to restructuring. The imposition of harder budget constraints on all enterprises, competition and bankruptcy rules, increased legal protection of economic operators and reduced state interference at enterprise level would be positive signs.

Support to SME development will be conditional upon improvements in the legal and regulatory framework, particularly in the field of taxation and registration. The National Bank of Ukraine must continue to pursue strict banking supervision and eliminate insolvent banks from the system. For the agricultural sector, any further initiative at the production level will be conditional upon the full enforcement of the new Land Code.

6.2.1.6 Indicators

- Training, via internships, of up to 250 Ukrainian managers per year;
- Improved performance indicators of targeted Ukrainian enterprises and banks;
- Increased credit to SME sector enterprises.

6.2.1.7 Indicative budget: EUR 20 million (8 in 2002 and 12 in 2003)

6.2.2 Fuel gap (2002)

6.2.2.1 Background and justification

The last reactor of the Chernobyl nuclear power plant was closed in December 2000, generating temporary additional costs of producing the same amount of electricity from traditional thermal power plants. This could have a detrimental impact on industrial output and disrupt domestic consumption. As a consequence, the notion of "fuel gap" was defined as the additional (annual) cost to Ukraine of producing electricity in thermal power plants, using imported fossil fuel to replace the electricity previously produced by the Chernobyl reactor 3. The EC has agreed to significantly contribute to close this fuel gap. Under the Tacis programmes 2000 and 2001, EUR 25 and 20 million were allocated respectively, as free-standing initiatives. A third and last action is proposed under the 2002 programme. In addition to past Tacis support to promote energy saving policies, the funds generated by the fuel gap programme will contribute to structural reform of the energy sector. Against the background of the recent uncertainty over the Ukrainian authorities' position regarding the K2R4 project, the status of measures to support the fuel gap may need to be reviewed.

6.2.2.2 Objectives

Main Objective

- To reduce the economic impact of the closure of the Chernobyl 3 reactor;

Specific Objective

- A fuel supply programme to produce electricity, formerly delivered by Chernobyl 3, at thermal power plants;
- To use the generated revenues for structural reform of the energy sector.

6.2.2.3 Expected results

- To cover a significant share of the fuel gap.

6.2.2.4 Description of programmes

- To supply imported fossil fuel to a few thermal power plants. The power thus generated will be sold and revenues paid to the Treasury. Payments will be used for mutually agreed structural expenditures in the energy sector, including energy saving measures;
- Technical assistance linked with the programme.

6.2.2.5 Conditionality

Respect of the agreement on the payment to the Treasury of Ukraine of the revenues from the sale of the power generated by the fuel supply. Successful resumption of the activities at the "K2R4" nuclear power plants, according to European safety standards.

6.2.2.6 Indicators

- Coverage of a significant share of the Ukrainian annual fuel gap; progress in putting in place market-based incentives and structures within the Ukrainian energy sector.

6.2.2.7 Indicative budget: EUR 20 million (2002)

6.3. Support in addressing the social consequences of transition

During the period 2002-2003, the priority will be to support the reform of the social protection system, according to market economy principles, with a focus on the financial and management implications of social and insurance provisions by the state.

6.3.1 Social reform

6.3.1.1 Background and justification

In response to the deteriorating living standards and social protection, the Government has launched a programme of reforms of the social security system, medical, employment and educational services, and poverty reduction. The broader legal framework for social protection identifies five funds to ensure the channelling of financial resources into the sector: pension, unemployment benefits, medical insurance, temporary disability insurance and accident insurance. Most required pieces of legislation are now in place and require enforcement support. Priority will be given to the following areas: improving the financing and management of the health insurance system; capacity building for social services to improve access for vulnerable groups, including through partnerships between the public sector, the private sector and NGOs.

6.3.1.2 Objectives

Main Objective

- To mitigate the social cost of economic restructuring and to reduce social disparities and poverty.

Specific Objectives

- To improve the financing and management of the social protection system, including support to the implementation of health and accident insurance schemes;
- To identify and implement improved mechanisms of social service delivery to poor and vulnerable groups by regional and local authorities and non-governmental organisations.

6.3.1.3 Expected results

- Enhanced capacity in the involved ministries, local administration and civil society structures in financial management, monitoring and quality control of health insurance funds and related structures;
- Enhanced recognition of the role of NGOs as partners for local authorities in the provision of social assistance to vulnerable population groups, and networks and support structures developed to improve access to social services in selected pilot regions.

6.3.1.4 Description of programmes

The social reform programme will follow the policies and legislation developed in Ukraine.

- Support to the implementation of the health insurance system at the national and local levels. Assistance to develop appropriate management mechanisms of available financial and human resources. Further development of specific regulations, appropriate models for the management of health insurance funds and promotion of participation of civil society structures in monitoring and control over such funds. Several pilot activities in this field should be supported at the regional and local levels and a sustainable system for training and retraining for health economists, health administrators, medical professionals and insurance experts shall be established.
- Capacity building for social services to enhance the delivery of social assistance and better target benefits to poor and vulnerable groups. Support strategic management and capacity building across organisational boundaries. Local and regional actions that stimulate and develop new systems of delivery of social services for poor and vulnerable population groups, including through the development of wide-ranging partnership models between

governmental institutions and NGOs. Capacity building for NGOs and civil society organisations, introduction of the system of social contracting. Informing the public of changes and developments in social assistance. Support for poverty reduction and human development via limited investment in the social sectors could also be considered.

6.3.1.5 Conditionality

Support to the implementation of new social insurance schemes will be conditional upon the existence of the adequate legislative framework and structures. In case the relevant legislation on medical insurance is not passed as envisaged, assistance in this area will be limited to policy advice. Agreement must be reached between the key actors in Ukraine on a comprehensive reform package for the health sector, including a strategy for future health financing which gives adequate priority to prevention and primary health care.

6.3.1.6. Indicators

- Increased number of institutions, NGOs and individuals playing an active role in social policy formulation and implementation, at the national, regional, and local levels;
- Implementation of appropriate mechanisms for financing, management and control of the health insurance scheme.

6.3.1.7 Indicative budget: EUR 16 million (6 in 2002 and 10 in 2003)

7. Budget

The Programme will be financed through an EC grant of EUR 67.0 million in 2002 and EUR 48 million in 2003, allocated as follows among the different priorities:

<u>Area/Priority</u>	<u>Indicative budget (EUR million)</u>	
	<u>2002</u>	<u>2003</u>
1. Support for institutional, legal and administrative reform	33.0	26.0
• Legal, judicial and administrative reform	10.0	11.0
• Border management	15.0	7.0
• Civil society, training and education	8.0	8.0
2. Support to the private sector and assistance for economic development	28.0	12.0
• Business, trade and investment promotion	8.0	12.0
• Fuel gap	20.0	0.0
3. Support in addressing the social consequences of transition	6.0	10.0
• Social reform	6.0	10.0
Total	67.0	48.0

8. Conditionality

Assistance in the period of 2000-2006 is provided on the basis of the existence of the necessary elements for the continuation of co-operation through assistance, in particular respect of democratic principles and human rights, as well as the obligations of Ukraine as set out in the Partnership and Co-operation Agreement.

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Annex 1 Ukraine - selected economic and social indicators

GENERAL	
Area (square km):	603,000
Population 1999 (million):	49.5
Urban Population (1999) :	67.9 %
Life Expectancy (1999) :	68.1 years
Population growth rate (1990-99) :	-0.4%
Fertility Rate per woman (1998) :	1.3
Unemployment (% of labour force, 2000):	5.3
Human Development Index (HDI) Rank:	74
ECONOMY	
Nominal GNP 1999 (USD):	37.5 billion
GNP per capita 1999 (USD):	750
GDP Breakdown by sector value added (1999) :	
Agriculture:	14%
Industry:	34%
Services:	51%
Real GDP growth rate:	
1998	-1.9%
1999	-0.4%
2000	5.8%
Estimated real level of 1999 GDP as % of 1989 GDP :	36 %
Inflation:	
1998	10.6 %
1999	22.7 %
2000	28.2 %
External debt stock (2000, USD):	11.9 billion
Debt Service (2000):	13.4% of current account revenues, excl. transfers
Official reserves, incl. gold (2000,USD):	1.15 billion
(all figures for 1999, in billion USD)	
Exports of goods & services:	18.66
(all figures for 1999, in billion EUR)	
Exports (goods) to EC:	2.1
Imports of goods & services:	17.52
Imports (goods) from EC:	2.6
Current account balance:	1.14
Trade balance with EC:	-0.5
FDI:	0.57
FDI of European origin:	0.13
SOCIAL DEVELOPMENT	
Adult Literacy Rate:	99.6 %
Primary Enrolment Rate (2000):	not available
Secondary enrolment rate (2000):	not available
Infant mortality (1999) :	17 per 1,000 live births
Under 5 mortality (1999) :	21 per 1,000
Contraceptive prevalence rate:	not available
Access to essential drugs	66%
Access to safe water:	not available
Access to sanitation:	not available
Under 5 malnutrition	not available
Number of doctors/100,000 people :	299

Sources: World Development Report 2000/2001; Human Development Report 2001; UN Economic Survey of Europe 2001 (1); Transition Report 2000 (EBRD); IMF World Economic Outlook (May 2001); World Bank Report website.

Annex 2 The EU and Ukraine– economic and trade indicators 2000

	EU	Ukraine
Population (million)	376.5	49.3 (estimate)
Area (1000 km ²)	3,231	603
Population density (inhabitants per km ²)	116.5	81.9
GDP (EUR billion)	8,485	29 (1999)
GDP per capita (EUR)	22,400	580 (1999)
Total merchandise trade (EUR billion) including:	1,958	30.9
Exports	936	15.8
Imports	1,022	15.1
Trade balance	- 86	+ 0.7
Exports as share of total world exports (%)	18.4	0.2 *
Imports as share of total world imports (%)	18.4	0.2 *

Source: Eurostat (EU-15), State Statistical Committee (Ukraine), except: *IMF

Annex 3 EC technical assistance to Ukraine 1991-2001

TACIS PROGRAMME OF TECHNICAL COOPERATION - Funds committed for Ukraine

1. FUNDS ALLOCATED through Ukraine Action Programmes

(EUR million)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
Support for institutional, legal and administrative reform	5	3	3	3	2	6	4	7	10	17	16	76
Support to the private sector and assistance for economic development	2	17	10	10	9	8	14	10	14	14	8	116
Support in addressing the social consequences of transition	0	0	6	4	5	5	3	3	2	6	8	42
Development of infrastructure networks (including energy, transport and telecommunications)	11	16	9	10	7	3	7	7	4	0	0	74
Promotion of environmental protection and management of natural resources	4	0	0	2	0	0	2	3	4	0	0	15
Development of the rural economy	8	12	11	5	4	2	2	2	2	0	0	48
Policy advice, Small Project Programmes (SPPs), Bisto and reserves	0	0	4	3	4	9	8	8	6	6	11	59
Tempus	0	0	0	3	4	5	4	4	4	5	5	34
Total Ukraine AP	30	48	43	40	35	38	44	44	46	48	48	464

2. FUNDS ALLOCATED through other Programmes

In addition to the National Action Programmes, other Tacis programmes also allocate funds to Ukraine

Below is an **estimate** based on the hypothesis that, in case of multi-country programmes, 25% of funds allocated to the CIS concern Ukraine.

(EUR million)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
Regional and other Programmes *	12	6	18	12	16	12	17	16	7	12	20	128
Nuclear Safety	2	22	38	50	55	38	2	50	50	33	56	340
Fuel Gap	0	0	0	0	0	0	0	0	0	25	20	45
Donor Coordination **	0	3	4	4	4	4	7	7	7	9	8	49
Programme Implementation Support ***	1	6	3	6	6	10	9	8	8	9	9	66
Total from other programmes	15	37	63	72	81	64	35	81	72	88	113	608

* Including the Ukrainian share of the Regional (ex-Inter-State), Cross-Border Cooperation (from 1996 onwards) and Democracy (until 1998) Programmes

** Including the Science & Technology Centre of Ukraine, 25% of EBRD Bangkok Facility

*** Including Coordinating Units, Information, Monitoring and Evaluation, STAP facility, ATA (Assistance Technique et Administrative)

3. TOTAL FUNDS ALLOCATED to Ukraine

(EUR million)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
Total allocated to Ukraine	45	85	106	112	116	102	79	125	118	136	161	1.072

Annex 4 Past and on-going EC technical assistance

Support for the institutional, administrative and legal reform

As a result of the growing demand for EU expertise on economic and legal issues, increased by the signature and entry into force of the PCA, a Ukrainian-European Policy and Legal Advice Centre (UEPLAC) has been established and will continue to ensure continuity in the provision of high-level advice to the Ukrainian government for the next two years. Focus will be put on provision of medium term strategic policy and legal advice to assist the Ukrainian authorities in fulfilling their obligations under the PCA. In addition, the project “support to PCA implementation” started in June 2001. Its main objective is to contribute to increased awareness of the PCA among Ukrainian civil servants and professionals, and enhance overall capacity to elaborate policy in key areas such as competition, standards, customs control and intellectual property.

Tacis is supporting efforts to strengthen the functioning of an independent **judiciary**. An ongoing project aims to improve the capacity of the Supreme Court Training Centre, and looks to facilitate the future development of an integrated training system for the judiciary. The link to broader judicial reform (beyond the narrow improvement of a training institution) will be part of an action foreseen under the AP 2000, aimed at (i) enhancing the institutional capacity of the arbitration court system in charge of “economic” disputes between enterprises, between enterprises and state authorities, and bankruptcy cases, and (ii) improving the competency of judges on commercial issues.

On reform of the **public administration**, Tacis has demonstrated that the modernisation and reform of the state apparatus has been one of its major objectives. Assistance was focused on the Cabinet of Ministers, specifically the General Directorate for Public Administration, which is responsible for developing guidelines for state policy on the civil service. The main results have been the new law on the civil service, elaborated for development of functional and client-oriented public services in Ukraine, as well as training and policy advice for drafting of statutes of ministries and other central executive bodies. However, Tacis involvement in administrative reform has showed the difficulties involved in the modernisation of the state apparatus. The idea of introducing and implanting changes inside the ministries through using civil servants as “agents of change” showed its limits, notably in the selection process for training and limited capacity or willingness to absorb the recommendations made by the trainees. With a stronger commitment from the beneficiary, mechanisms of implementation could be improved further.

Support for private sector development and assistance for economic development

Enterprise restructuring and privatisation. Tacis supports the efforts by the Ukrainian Government to increase the pace of privatisation. Projects were targeting assistance to the State Property Fund of Ukraine, responsible for the privatisation process, as well as to specific enterprises considered to be strategic companies for national development. However, the institutional and legal transfer of ownership has proved insufficient to induce comprehensive restructuring. In this context, technical assistance can focus on stimulating more effective restructuring and better corporate governance during both pre-and post-privatisation phases. Additional help is directed at the Government in its mission to improve the overall investment climate, allowing for market incentives to promote restructuring. Moreover, advice has been provided to both medium and large enterprises on controlling expenditures, decreasing inter-enterprise arrears and improving respect of contractual

obligations. Particular attention has been paid to the development of local capacity to provide restructuring advice in line with local conditions and realities.

SME sector. Despite the fact that assistance to the SME sector has always been a prominent priority of donors in Ukraine, the practical impact on the SME sector is quite limited so far. The reasons are two-fold: i) almost no assistance is channelled to the state for altering the general environment for SME development in Ukraine; ii) donor institutions tend to limit their support to grants, whilst presently SMEs need credits to accompany technical assistance. Tacis has been active in the SME sector since 1992, both directly and through projects containing SME-related components, i.e. projects in the social sector, enterprise restructuring, tourism, and retraining of military officers. However, the main activity in the SME field focused on the creation of a countrywide network of agencies providing business development services (Agencies for Development of Enterprises). The support to the SME sector under this facility included 'in-house' professional skill enhancement, the development of training materials etc. and thus has laid a sound institutional basis for future intervention. So far, the activity of the Tacis advisory network has been primarily focused on the promotion and support of business start-ups. It is now recognised that modern and effective demand-driven advisory services are required by the SME sector, which go beyond business initiation and are increasingly tailored to the needs of the sector's consolidation and growth. Another constraint on SME development is access to commercial credit, and a related priority has therefore been to stimulate finance from the formal banking sector. A number of international organisations, in co-operation and with the support of the NBU, have decided to increase their efforts in providing financial resources to SMEs (mostly micro-enterprises) by creating a new financial intermediary, the Ukrainian Micro-finance Bank (UMF), based on similar operations in other eastern European countries.

Banking and finance. Since 1996, international donors have made a large co-ordinated effort to support the National Bank of Ukraine (NBU) in its reform initiatives aimed at improving the operation of the Ukrainian banking system and bringing the banking sector closer to international best practice. In autumn 1998, this included an inspection of the seven largest banks of Ukraine, which identified some priorities for TA. Tacis has since provided advice to the three largest Ukrainian commercial banks, including two state-owned ones and one private bank. Assistance was also directed towards the development of NBU capacities in bank supervision and liquidation, and towards capacity building and skills development in providing micro credits to SMEs. Having made progress with Tacis projects on the institutional reform of selected larger banks at national level, the next step required is to approach organisational, operational and administrative reforms in the regions.

Agriculture. On the basis of the 1997 law on co-operatives, Tacis successfully assisted the development of co-operative organisations in Ukraine. The project, completed in spring 2001, led to changes in the legal framework and accompanied the creation of 75 service co-operatives countrywide. It also stimulated the discussion on agriculture finance in general and credit provisions to co-operatives in particular, and spread the co-operative idea in the country. Fully in line with government policy focused on upgrading rural skills, a Tacis project on support to the creation of new private farm support centres has as its main objective to support private farms of all types, as well as agro-businesses, by introducing new technologies, advanced principles of farm and business management in accordance with EU know-how and experience. With close involvement from educational and scientific institutions, the project has an opportunity to develop into an institutionalised network for the extension service and consultancy sector in agriculture. Other donors cover important areas of possible co-operation, in particular: land titling (USAID), rural livelihood

improvement (DFID), commercial micro credit (EBRD), collective farm reorganisation (Canada and IFC), pilot rural finance schemes (Canada, France).

Energy. In addition to its massive involvement in nuclear safety, Tacis has also contributed to a number of programmes aiming at the improvement of the energy sector. Projects implemented in recent years include assistance to energy market reforms, the restructuring of the coal mines, the technical audit of oil pipelines, the conversion of the accounts of the power generating companies, and an energy development plan for Crimea. Energy saving and energy conservation have also been issues prominently addressed, and Tacis in co-operation with the EBRD has assisted in the establishment of an energy saving company to provide expertise to industry under market conditions. Another project has promoted the development of co-generation in the food industry. Tacis has also established an information network for energy conservation. The variety of issues and projects reflects the magnitude and many facets of the problems of the energy sector in Ukraine, the hesitations of local authorities, and the emergence of opportunities. Tacis has consistently worked in co-ordination with other donors in the sector.

Support in addressing the social consequences of transition

Tacis has been involved in improving the legal basis and efficiency of the **social protection** system and employment policy. Several initiatives to alleviate the social impact of restructuring have targeted groups such as ex-military officers and redundant miners. Some draft laws and regulations of major importance have been prepared during the last two years, including the framework Law on Social Assistance, a good basis for the further development of a legal environment for launching reform in the sphere of social services. A good example of Tacis's impact is the fully operational social consultation and information office in Dnipropetrovsk and the three pilot local social care institutions which are now capable to execute their function in a more effective way and are potentially ready to provide new types of services for needy people who can benefit from it.

In the **health** sector, following actions in the field of occupational health and the development of the pharmaceutical sector, Tacis focused in 2000 on tuberculosis control and preventive and primary health care. The tuberculosis prevention and control project works as a pilot project for the introduction of the WHO-recommended directly-observed treatment short-course (DOTS) and aims at the development of a more effective strategy at the national level for combating tuberculosis in Ukraine. The project on preventive and primary healthcare contributes to improving public health awareness and provision of primary care in selected regions. Training is provided to regional health administrators and managers in application of effective preventive and primary health care policies. Pilot initiatives are being supported to promote better health, involving the NGO community and local media, and for cost-effective provision of primary healthcare in local communities. Another significant project is the joint EU-US HIV/AIDS prevention and awareness programme for Ukraine (2000-2003).

Significant assistance has also been provided under other Tacis initiatives, complementing country programmes: the **Regional** (formerly Interstate) Programme, the **Cross-Border Co-operation** (CBC) Programme, the technical co-operation programme with the EBRD ("**Bangkok Facility**"), the support to the **Science and Technology Centre of Ukraine**, the subject of separate Indicative Programmes. The Regional and CBC programmes have focused mainly on issues best addressed at a multi-country level, such as networks development (transport and energy), environment (particularly water management), justice and home affairs (women and drug trafficking, money laundering).

Annex 5 Member States' and other donors' cooperation

	EC	Member States	Other Donors	Comments
Support to institutional, legal and administrative reform				
- Administrative reform	X	UK DE	WB, USAID, UNDP, EBRD	
- Judicial reform	X	UK	USAID, Council of Europe, CIDA*	* past and ongoing projects
- PCA implementation and WTO accession	X	UK	USAID*,	* mainly on trade issues
- Education	X	UK, DE	UNDP, WB	
- Civil society	X		USAID, WB, UNDP, CIDA	Most of actions are concentrated on NGO's support programmes.
- Civil and company law				
Support to the private sector and assistance for economic development				
- Corporate governance improvement	X	UK, DE, NL	WB, USAID, EBRD	
- Privatisation/enterprise restructuring	X	UK, DE, NL	WB, USAID, EBRD	
- Deregulation of the economy	X			See administrative reform
- Bank restructuring and regulation	X	DE	USAID, WB, EBRD	

- International Accounting Standards	X			
- SME development	X	Most donors	USAID, EBRD, UNDP,	
- Sectoral reform:	X			
- Energy sector	X	NL*, DK*	USAID, WB (with emphasis on safety), EBRD, CIDA	* energy efficiency mainly
Support in addressing the social consequences of transition				
- Labour market and employment	X	UK	WB, USAID, UNDP	
- Social reform	X		WB, USAID (pension reform)	
- Health and social protection	X		WB, USAID, UNDP, CIDA	
Other areas				
- Environment	X	UK, NL, DK	WB, USAID, UNDP, EBRD, CIDA	USAID – greenhouses effects UNDP – soil and waste management; ecotourism, Action Plan for Dniepr river pollution reduction
-Restructuring of large agricultural enterprises/agriculture/rural livelihoods	X*	UK, DE– on private farms support	WB, USAID - land reform, CIDA	* in past, not a current priority