Overview

Ukraine, a middle-income country of about 50 million people, has a well-educated, highly skilled labor force. An estimated 68 percent of the population live in urban areas. In 2000, the industry and services sectors accounted for 37.2 and 46.6 percent of the GDP respectively. Agriculture accounts for 16.2 percent of GDP and is a sector with strong potential. The country also has fairly well developed infrastructure.

In the first decade after independence, the government made limited progress in implementing structural economic reforms. While after the mid-1990s the Government was successful in stabilizing the economy, few incentives existed for private enterprise to flourish. As a result, by end-1999, official GDP in real terms dropped to 40 percent of its 1990 level. The incidence of poverty rose sharply, with 29 percent of the population falling below the poverty line in 1999, and 3 percent living in extreme poverty.

Since January 2000, the Ukrainian government has embraced a strong economic reform program and focused its attention on the most critical areas with broad economic and social impact. Robust reform measures and improved governance, helped by a favorable external environment, particularly the rebound in growth in Russia, resulted in strong GDP growth of 5.8 percent in 2000, followed by an even stronger growth of 9.1 percent in 2001. This was mainly on account of double-digit growth in industrial output and good performance in agriculture.

Economic growth has now expanded from traditional industrial export goods to encompass agriculture, construction, and food processing. Privatized companies have figured prominently in this economic expansion. Agriculture has been significantly strengthened after elimination of the collective farm system.

Focus of World Bank Assistance

The World Bank has been helping Ukraine's transition to a market-based economy since the country joined the Bank in 1992. The main focus of its assistance is to facilitate sustainable economic growth that will create jobs and reduce poverty. To achieve this, the Bank’s assistance is focused in the following areas:

- **Strengthening public and private sector financial discipline, accountability, and transparency.** Through the strengthening of public sector institutions and improved oversight and monitoring of the private sector, the Bank's activities aim to address chronic problems of soft budget constraints, payment arrears, and non-payments. The Programmatic Adjustment Loan (PAL) as well as investment loans contribute to this objective.

- **Creating an enabling environment for business and improving governance.** The World Bank is supporting the government's structural reform program through a series of Programmatic Adjustment Loans, amounting to US$750 million.

- **Increasing the voice of civil society.** The Bank's non-lending activities aim to increase the voice of civil society to demand accountability of public officials and encourage well-functioning public institutions.

- **Bringing Ukraine closer to the environmental standards of the European Union.** A project to end usage of Ozone-Depleting Substances is under implementation and a project for the conservation of wetlands will commence soon.

Impact on the Ground
Monetization of the economy and development of the financial sector. Monetization of budget transactions had a dramatic impact on the rest of the economy. The Ministry of Finance stopped collecting taxes in kind. Barter transactions were reduced to under 10 percent. These important changes were due in large part to the Programmatic Adjustment Loan.

Registration of new businesses is now easier. This has been made possible through one-stop-shop registration. The cost of registering a business dropped from US$192 in 1997 to US$67 in November 2001. The time taken to register a business was cut from 34.7 days in 1997 to 11.6 days in 1999 and 4.8 days in 2001. The PAL and the Private Sector Development Project helped realize these reforms.

Property rights are now legally protected. State ownership of land has been eliminated and 6.5 million land certificates have been issued to former Kolkhoz or farm collective members. By the beginning of 2002, 2.2 million land title deeds were issued. These efforts have been assisted by the Bank's ongoing agricultural policy dialogue, supplemented by the PAL.

Primary health care has improved. New family medicine centers and new university specialization on family medicine have been established through indirect support from the PAL.

AIDS prevention programs have been adopted in various regions. An HIV / AIDS prevention and epidemic control strategy has been approved. A TB / HIV / AIDS epidemic control project is slated for consideration by the Bank's Board in FY03.

The Bank-initiated People's Voice Project is assisting the development of civil society. This pilot project is building the capacity of citizens' groups in four cities and mobilizing them to use surveys as well as information on major services to advocate for better government and more civic participation. The city of Ternopil has created one-stop-shop service centers where citizens can pay for all city services. The model will be replicated in other cities.

Social security will be better targeted. A national unified social insurance database has been created and 3 million social insurance IDs issued. Social assistance outreach services have been expanded to include 10,000 old and disabled people.

Increasing production of environmentally clean energy. The capacity of the Dniprohydroenergo company to generate environmentally clean hydroenergy was increased by 88.1 MW, resulting in an increase in available electricity, mostly during peak hours.

For details of World Bank projects in Ukraine please click here.

Challenges Ahead

- Improved fiscal performance is key to sustaining Ukraine's macroeconomic achievements.
- Continued reform is needed in the energy sector, particularly the privatization of power companies, improvement of the regulatory environment, and reform of the gas sector.
- The financial sector needs to be strengthened through decisive actions so that it occupies its legitimate role in the economy, and to prevent a systemic crisis.
- Improved governance is vital for better economic management. Ukraine needs to work towards eradicating corruption and harassment of businesses. To this end, enforcement of property rights, deregulation, transparent privatization, a meritocratic civil service, fiscal transparency and a functioning judiciary are key.
- Continued reforms in agriculture are needed to create a large constituency of private landowners in the rural areas if Ukraine is to regain its status as the 'bread basket' of the region. To achieve this, it is essential to distribute land and land titles to private farmers, and build basic institutions for the protection of property rights.

World Bank Partners in Ukraine

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>LEAD NATIONAL AGENCY</th>
<th>PARTNERS</th>
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<tbody>
<tr>
<td>Financial Sector</td>
<td>National Bank</td>
<td>IMF / USAID</td>
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<tr>
<td></td>
<td>Ministry of Finance</td>
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<td>Ministry of Economy</td>
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<td>Health</td>
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<td>UNDP / WHO / UNICEF / UNAIDS / USAID</td>
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<tr>
<td>Energy</td>
<td>Ministry of Fuel and Energy</td>
<td>DFID / TACIS / EBRD</td>
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<tr>
<td>Social</td>
<td>Ministry of Labor and Social Protection</td>
<td>UNDP / TACIS / DFID</td>
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<tr>
<td>Agriculture</td>
<td>Ministry of Agrarian Policy, State Land Committee</td>
<td>DFID / USAID / TACIS</td>
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<td>Environment</td>
<td>Ministry of Environment Protection</td>
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<tr>
<td>Infrastructure</td>
<td>State Committee on Housing and Construction</td>
<td>UNDP / EBRD</td>
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World Bank Lending to Ukraine

Total WB / IDA Lending as of July 1, 2002: US$ 3,223 million
(in nearest US$ millions)

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<td>670</td>
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<td>176</td>
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</table>

Total Commitments by Sector* since 1993
(in nearest US$ millions)
A new Bank sector and thematic coding system was introduced in FY02. Under this new system, themes represent the development objectives of the operation, whereas sector codes for investment operations reflect the parts of the economy receiving direct support, and for adjustment operations, the sectors being impacted by the operation's conditionalities. Thus, a given adjustment operation may span a number of sectors depending on the reform measures being implemented by the loan and may, for example, show up in education, health, trade and industry or other categories, even though there may not be a direct investment in that sector.

Fiscal year from July 1-June 30.

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