

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR UKRAINE

**REPORT ON THE INVITATION TO THE
PUBLIC TO COMMENT**

1. Introduction

In accordance with the EBRD Public Information Policy (PIP), an invitation to comment on the new Strategy for Ukraine was posted on the Bank's website on 2 August 2007. The public was invited to submit comments, based on the draft new Strategy posted on the Bank's website, no later than 2 September 2007.

Up to 2 September, three comments related to the EBRD's mandate in Ukraine had been received.

As required by the Public Information Policy, these comments were examined by the relevant Banking teams and Management and responses have been provided in *Staff Responses to Public Comments on Ukraine Strategy* which becomes an addendum to the Ukraine Strategy.

2. Comments Received and Staff Responses

2.1 Comment from a Ukrainian citizen

Comment

1. In the Section on Transport, make increase of financing of transport corridors on the territory of Ukraine connecting Russia and South-East Asia with EU countries, your main priority.
2. In the Section on Telecommunication, make financing of UMTS standard implementation in towns with population between 50,000 and 100,000, one of your priorities.
3. In the Section “Power and Energy”, make support of wind-farming development in the south of Ukraine, especially on Crimea, one of your priorities.

Staff Response

Re 1.

EBRD fully recognises the importance of transport infrastructure in Ukraine. As of March 2007, the total volume of EBRD financing for transport infrastructure comprised EUR 542 million. Almost 70% of this amount is earmarked for the rehabilitation of the M06 road, which forms part of Trans European Corridors III and V connecting Ukraine and neighbouring countries in the East with the EU. In the coming years, EBRD will continue to play a crucial role in developing the transport infrastructure of Ukraine, and will take appropriate account of the recommendations of the High-Level Group on the extension of the main trans-European transport axes to neighbouring countries as well as of the Long-Term TRACECA Strategy. One of the key areas of medium term operational focus will be on completing modernisation of the M06 road as well as financing the implementation of other major international axes.

Re. 2.

The decision to extend the 3G network to smaller cities is determined by the private sector on commercial basis. EBRD is looking to provide financing for roll-out of UMTS network to increase the geographic and population coverage, as required by the mobile operators.

Re. 3.

The Bank supports all forms of renewable energy in Ukraine and is now working with the Government on addressing gaps and bottlenecks in the regulatory and commercial framework for renewable energy. It is hoped this will lead to concrete opportunities with projects in wind, hydro, biomass and solar energy. At the same time, the huge opportunities to save energy by improving energy efficiency has to be one of the top priorities for Ukraine. EBRD is leading the efforts in this respect as outlined in Annex 5 of the new Strategy..

2.2 *Comment from a Ukrainian citizen*

Comment

I suggest that the article “Concept of National Transport” (attached) be included as a part of your new Country Strategy for Ukraine.

Staff Response

The article, which is too large to be included here in full, is developing the idea that the modern railways system should be the backbone of Ukrainian economy, connecting Ukraine with Russia and EU and facilitating transit traffic between Asia and Europe.

As of March 2007, total volume of EBRD financing for the railway infrastructure comprised USD 172 million, the majority of funds are earmarked for track maintenance equipment and reconstruction of Beskyd tunnel, which is a critical bottleneck Trans European Corridors V connecting Ukraine and neighbouring countries in the East with EU. These investments will help to improve railway infrastructure and facilitate transit between Asia and Europe. One of the key areas of medium term operational focus of EBRD will be supporting the corporatisation of the Ukrainian Railways and investment in rolling stock, traffic control automation and energy savings aimed at transforming Ukrainian railways into the modern railway operator.

2.3 *Comment from a private consultant*

Comment

The EBRD TAM and BAS initiatives are admirable but are difficult to access for most of the ‘run of the mill’ Micro and SME, particularly once one is outside Kiev. Furthermore, there is no BAS office at all in the Ukraine as yet which makes things even more difficult.

With the majority of businesses in the Ukraine being Micro enterprises and SME there is definitely a pressing need for more Western European business support for these Ukrainian businesses which in most cases have very capable people running them, with excellent technical abilities, but lacking in many of the professional business skills which we take for granted and also lack an understanding of established business institutions, laws and policies that would potentially support their markets.

In conclusion, we believe that there is a great chasm between the access to the likes of IBRD/World Bank and EEC funding which larger Ukrainian businesses have, and what smaller businesses - which are the backbone of the economy - have to the likes of the TAM and BAS initiatives which are still relatively inaccessible. This problem is particularly exasperated when one takes into account that many of these smaller businesses ‘don’t know what they don’t know’, thus making even the question difficult! Yet with a little focussed financial help, which must be supported by general business support from business professionals, the potential of these businesses is tremendous.

Staff Response

The Bank is in the process of finalizing a new TAM/BAS Strategy for 2008-2010. The Strategy outlines the need for more TAM/BAS intervention in Ukraine, and to establish at least 2 BAS offices to provide advisory services to MSMEs that are lacking technical abilities & professional business skills, as recognized as a need below. To date, donor funding has not been available to support extensive TAM operation (Note: the EU has provided 20 TAM Projects in Ukraine, of which 5 are on-going) or BAS in Ukraine, but we are hopeful that there will be future programme funding available. Once the operating budgets for both TAM and BAS become more stable in Ukraine, services will be publicly advertised and will be accessible to all qualifying MSME's. It is anticipated in the TAM/BAS Strategic Plan that BAS operations will commence in 2008, as well as dramatically stepping up TAM intervention to meet the needs of MSMEs that are emphasized in the comment.

2.4 *Comment from a Ukrainian citizen*

Comment

I would like to suggest one more direction of your activities, which is missing in your document. It is development of new technologies and creation of joint-venture companies. Intellectual potential of Ukrainian scientist is without doubts lower than in world leading countries, but it does exist and should be developed. Generally, the innovations' market is underdeveloped and unstructured, which creates good opportunities for newcomers.

With this in mind, I think it makes sense to suggest that you introduce in your Strategy for Ukraine a section focusing on streamlining of intellectual activity and intellectual property.

Staff Response

The availability of highly skilled workforce, scientific institutes and universities in Ukraine is recognized by the Bank and by many foreign investors, who see this as one of the reasons to invest in Ukraine.

As stated in the Strategy (Section 3.2.1), the Bank will offer support to foreign direct investors, local companies and joint-ventures which help diversify Ukraine's economy and promote new technologies in telecommunications, power, chemical and other industries.