Statement by Jan Piercy
Date of Meeting: May 20, 1999

UKRAINE: Country Assistance Strategy Progress Report

Overall Strategy

1) We regret that political and economic uncertainties in Ukraine have delayed the development of a full CAS. However, in light of the circumstances, we agree that an interim update is the most sensible choice.

2) We commend Bank staff for a tough, pragmatic approach that is flexible enough to allow the Bank to respond to opportunities that may arise if the Government of Ukraine demonstrates commitment to, and ownership of, reform initiatives.

3) We were pleased to hear in discussion of the CAR that management has already acted on several of OED’s recommendations, most notably increasing public outreach and a decision to front-load reform requirements in future lending programs. These are important adjustments to address risks inherent in the Ukraine portfolio and future strategy. This approach is essential to meet OED’s recommendation to focus future project design on bringing fundamental change in the role of public administration of the economy.

4) We appreciate the Bank’s close collaboration and coordination with the IMF. Given the mutual dependency between the Bank and Fund programs, it is essential that each reinforce the reciprocal objectives of the other. In particular, the heavy structural components of the EFF program in sectors such as energy, banking, and agriculture rely greatly on the success of the Bank’s programs, thereby requiring continued close coordination between the two institutions.

Lending/Reform Scenarios
1) The update discusses three scenarios: middle; low; and zero. However, there actually is a fourth scenario that represents the current situation. As explained in paragraph 30, we are in a zero scenario for new lending but disbursements of already approved adjustment operations continue to move ahead provided associated conditions are met. We support this approach and the Bank’s requirement that Ukraine satisfactorily address the problems related to Rada approval before it will move beyond the pre-appraisal stage for new operations. We also concur that an effective program in Ukraine needs to consist of both adjustment and investment operations. However, given the potentially serious medium-term consequences for Ukraine of having no immediate pipeline of projects, we would be interested in staff views on prospects for resolving the problems related to Rada approval and bringing loans and grants to effectiveness.

2) We would appreciate clarification concerning the link between continued disbursement of adjustment lending and the status of the IMF program. The 1998 CAS Progress Report (as described in paragraph 13) created a firm link by saying that the evidence of macroeconomic stability would be successful implementation of the IMF program. The language in paragraphs 30 and 35 is somewhat ambiguous and could be read either to mean that compliance with the EFF is a necessary but not sufficient indicator of macro-economic stability or that the Bank is looking to build in some greater flexibility regarding full compliance with the EFF than it gave itself under the 1998 Progress Report.

3) We note that the low-case lending scenario corresponds to a muddle-through reform scenario. We hope that every effort will be made to ensure that the Bank’s programs, even in a low case lending scenario, promote progress toward bolder reform and do not inadvertently encourage a continuation of muddling through.

4) Given the conditions in Ukraine, the proposed lending operations in the low and medium case scenario seem appropriate. The public administration and institutional development programs under the medium-case scenario are critical and we hope the GoU can meet the conditions to move forward on those programs.

5) In the non-lending work, we would like to highlight the importance of moving forward on energy sector and social sector analyses.

6) In the energy sector, we agree with the Bank’s plans to reassess its strategy in this sector. It will be important for the Bank to coordinate its work with the EBRD-Ukraine Task Force on Power Sector Reform. Moreover, we feel it would be useful for the donor community and the GoU to develop a coherent strategy dealing with the full range of issues -- improved energy efficiency, decommissioning nuclear capacity, and other reforms for the sector. As long as the Rada is able to vote down price increases, plant closing and other reforms, there is little that donors can do in this sector. Buy-in by government officials is crucial.

7) As noted in the CAR, Ukraine faces serious social sector challenges. We hope that the dialogue with the government and civil society that will take place during the social sector study will lead to the necessary consensus in Ukraine to enable the Bank to include some
social sector support operations in the next CAS.

Key Indicators

1) We strongly support the focus on outcomes rather than outputs as the key indicators for moving to a medium-case scenario (paragraph 32).

2) While the indicators that would lead to a move from the low and medium case scenarios are quite clear, the criteria for moving from the true zero case (no lending; no disbursement of existing operations), should that unfortunate event occur, back to a low case are not set out. What key indicators would the Bank look for to resume lending and/or disbursements on existing operations?

3) The discussion of the agricultural loan notes a sector limitation to a low case until the government demonstrates its commitment to more effective and consistent reform. What specific indicators would the Bank find convincing in this area? Are there other sectors that might be “left behind” even if the government meets the indicators to move to a medium case scenario?

Looking Ahead to a Full CAS

1) This update has a rather thin coverage of coordination and collaboration efforts among all donors, including the IMF, other MDBs, bilateral donors, the private sector and civil society. The CAR provided a general discussion of aid coordination and noted the importance of enhancing outreach and partnership. We expect the full CAS to provide a comprehensive picture of current and planned donor assistance and key sectors targeted, indicating activities where the Bank takes the lead and where other donors take the lead.

2) We are concerned about the long-term corrosive impact of corruption on the Ukrainian economy and society. We expect the full CAS to include a more detailed discussion of governance issues in Ukraine. The CAR noted a pervasive corruption problem related to certain public administration vested interests and their impact on pushing a large portion of the economy underground. This update also acknowledges the serious corruption problems. However, neither report provides a substantial discussion of the extent of these problems nor, strategically, how the Bank proceeds against this backdrop. An anti-corruption policy and agenda must be central to Ukraine assistance going forward.

3) Equally important in the full CAS will be more explicit elaboration of the transparency and accountability of budget and expenditure processes. The planned ESW for FY00 on “Fiscal Issues” should serve as a building block to the CAS and should give the Board a clear picture of budget and expenditures processes, audit and reporting processes of public spending and composition of spending.

4) This update assumes that the composition and direction of Ukraine’s exports will remain unchanged. While probably a true prediction for the near-term, going forward in the full
CAS, there may be utility in looking for opportunities to support sectors that could provide a more diversified set of exports, and some that might be in greater demand in non CIS markets.

5) Finally, we would like to see the full CAS include a thorough discussion of important environmental issues.

Portfolio performance

1) The update reports that 81% of Bank projects are evaluated as satisfactory. As we learned from the CAR, this has not translated into satisfactory development outcomes. This raises a question about the value and realism of such ratings. There is little value to staff, management or the Board in learning that what may have been a flawed concept has been implemented perfectly.