

## Data Sheet

<b>USAID Mission:</b>	Ukraine
<b>Program Title:</b>	Improved Investment Climate
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	121-0141
<b>Proposed FY 2004 Obligation:</b>	\$4,991,000 FSA
<b>Prior Year Unobligated:</b>	\$259,000 FSA
<b>Proposed FY 2005 Obligation:</b>	\$4,075,000 FSA
<b>Year of Initial Obligation:</b>	FY 2003
<b>Year of Final Obligation:</b>	FY 2007

**Summary:** Although in 2003, Ukraine experienced a fourth consecutive year of economic growth (5.6%) and low inflation (4.1%), foreign investment was only equivalent to \$130 per person, representing one of the lowest foreign direct investment levels in Eastern Europe and the Commonwealth of Independent States. USAID is committed to improving the investment climate as a crucial component of a sound market economy. USAID activities to improve Ukraine's investment climate include: commercial law, accounting, corporate governance, banking supervision, World Trade Organization (WTO) accession, and local budget reform.

USAID will continue to provide funding to activities that are achieving substantial results in establishing institutions, laws and policies that foster private sector-led growth, macroeconomic stability, poverty reduction, and budget and tax decentralization. Increased trade and investment, further integration into the global trading system, and a secure and stable financial market are among other areas of assistance. Specifically, achievement of this strategic objective depends on: 1) Ukraine gaining full compliance with WTO membership requirements; 2) establishment of a legal foundation that clearly delineates the commercial law regime, secures property rights, and provides predictable and enforceable means of redress; 3) budget and tax policies that provide a transparent, efficient system of expenditures and taxes; and, 4) a transparent financial sector that mobilizes resources for investment and gives financial intermediaries and capital markets a key role in guiding investment to the economy. The major issues and problems constraining investment in Ukraine are the lack of an independent court system, weak shareholders' rights, an inadequate legal framework, weak budget and tax systems, lack of regulatory and enforcement capacity within the financial sector's regulatory bodies, and the inefficient allocation of resources in the financial sector.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Commercial law (\$1,477,091 FSA). USAID will assist the appropriate Parliamentary Committees to mitigate differences between the new, progressive Civil Code and the regressive, anti-market Economic Code. The Civil Code will have a dramatic impact on transactions throughout society because it provides the basis for personal freedom, private ownership of land and property, intellectual property rights, debtor-creditor relations, and market-oriented principles of corporate governance and entrepreneurship. USAID will continue to support the adoption of commercial legislation that conforms to the Civil Code. The USAID-funded Commercial Law Center (CLC) will provide training to commercial law professionals in arbitration, mediation, bankruptcy, enforcement of judgments, legislative drafting, as well as public outreach and advocacy on commercial law reform. In addition, the CLC will draft and promote the passage of laws and regulations that increase access to credit for small and medium enterprises, prospective home owners, farmers, and municipalities. This includes legislation on secured transactions, mortgage lending, leasing, and credit bureaus. Principal contractor: Deloitte Touché Tohmatsu Emerging Markets Ltd.

WTO Accession (\$150,000 FSA carryover). In August 2003, USAID began a one-year project to assist the Government of Ukraine (GOU) in meeting the requirements for accession to the WTO. The major task is to improve Ukraine's sanitary and phyto-sanitary (SPS) regulations, which guarantee food safety and quality. The project assists the Ministry of Economy to prepare for the WTO Working Party meetings in 2003-2004. To meet its objective of joining the WTO by 2005, Ukraine will need to increase the pace of its legal reform. USAID is adding carry-over funds to broaden the scope of work of the WTO project to assist in other non-SPS legal and regulatory areas.

Financial Sector (\$1,115,282 FSA, \$108,740 FSA carryover). USAID programs support: 1) the adoption of legislation that promotes transparent corporate governance practices and supervision; 2) training, examination and certification of accountants that will enable listed Ukrainian companies to use International Financial Reporting Standards, starting in 2005; and 3) legal, regulatory and institutional reforms to develop long-term financial markets in Ukraine. Also, the banking supervision activity is establishing stronger risk-based supervision at the National Bank (NBU) and risk-based management within commercial banks. Principal contractors: Financial Markets International (FMI), Chemonics and Bearing Point (prime).

Budget reform (\$2,398,627 FSA). In FY 2004, local government budget reform continues. USAID will provide assistance to 26 local governments in three oblasts: Khmelnytsky, Lviv and Poltava. USAID is strengthening local budgets, budget decentralization and program budgeting in key regions and cities. USAID plans to work with the Parliament's Budget Committee on aspects of national and local budget policy issues and will provide increased assistance on tax policy issues to the Rada's Sub-Committee on Tax Policy. Principal contractor: Development Alternatives, Inc.

**FY 2005 Program:**

The FY 2005 program will allocate \$2,075,000 FSA to improve the investment environment in the following ways: 1) to assist the GOU to meet its commitment after joining the WTO; 2) to develop a more vibrant, transparent financial sector; 3) to strengthen the ability of cities and towns to develop and manage their own budgets.

USAID will also allocate \$2,000,000 to the Local Budget Reform Project to expand technical assistance to 75 cities in 10 oblasts.

**Performance and Results:** USAID accomplishments created important conditions for improving Ukraine's investment environment in 2003. USAID assisted in the adoption of a progressive Civil Code, which will become the framework for Ukraine's body of commercial law. USAID's promotion and co-sponsorship of the new mortgage law, signed in July, has also stimulated a large demand for mortgage loans, currently estimated at \$300 million in Kyiv alone. Following recommendations by USAID's Banking Supervision project, the NBU formally adopted "risk-based supervision," which is improving the asset management capabilities and anticipated performance of Ukraine's commercial banks. The Cabinet of Ministers issued a decree to give greater protection to shareholders of joint stock companies. The Securities and Exchange Commission and the NBU have endorsed and are promoting the USAID-sponsored Certified International Professional Accountant (CIPA) program. CIPA certified accountants are bringing transparency into Ukraine's private sector and moving private enterprise towards compliance with global business practice. Municipalities are taking greater control of their budgeting process. The Ministry of Economy is implementing the USAID's legislative road map for accession to the WTO.