

PROJECT FICHE

Title	Innovative economy		
Indicative budget	€17 million		
Aid Method	Project approach – centralised management		
DAC-code	43010	Sector	Multisector aid

1. RATIONALE

1.1. Strategic framework

The Ukraine NIP 2004-2006 identifies, as main constraints to the development of small and medium enterprises (SMEs), the regulatory and administrative barriers to market entry and expansion, as well as their limited access to innovation technologies and credit¹. Therefore, it proposes to help transfer modern knowledge to enterprises on specific issues, promote the technical capacity and willingness of local financial institutions to increase lending operations to SMEs, and increase competitiveness of enterprises². Support to the introduction of up-to-date mechanisms and tools for banks becoming efficient financial intermediaries including enhanced relations with all groups of customers (including innovating SMEs) is meant as an objective contributing to the strengthening of the small and medium enterprise sector, the creation of a favourable investment climate, the promotion of private business initiatives, and the development of a middle class in society³. At the same time, the promotion of an information society, which is an important element for enhancing innovation capacities of public and private actors, is stated as a second main objective in the co-operation priority area “Education and Training”.

In addition, the NIP stipulates in its Preamble that “*planning should leave a sufficient margin of flexibility for Action Programmes to respond to changing priorities and needs, such as with regard to the consequences of enlargement of the EU*”, thereby referring to the ENP⁴, whose purpose is to tackle the consequences of enlargement.

The EU-Ukraine ENP Action Plan of 21 February 2005 addresses in various chapters the various issues of regulatory reform and SME development, and underlines the need to select priority industrial sectors to prepare for Ukraine’s participation in the EU internal market⁵. Furthermore, the ENP Action Plan⁶ sets as objectives (a) the preparation of Ukraine’s integration into the European Research Area, and (b) the development of Ukraine’s research and technological development capabilities in the service of the economy and the society, and more particularly the promotion of an environment favourable to the exploitation of research results.

¹ NIP 2004-2006, Section 2.1.1

² NIP 2004-2006, Section 2.1.2

³ NIP 2004-2006, Section 2.2.2

⁴ COM (2004) 373 final, issued 5 May 2004

⁵ ENP Action Plan, Section 2.2 “Economic and social reform and development”, 2.3.5 “Other key areas”. One of the means advocated by the ENP Action Plan to promote SMEs is to develop a dialogue, involving the Commission and Ukrainian administrations, business and academia, aiming at the exchange of information and best practices on enterprise policy, particularly in specific sectors (*e.g.* promotion of investment and innovation; facilitation of access to financing for SMEs; industrial restructuring; education and training for entrepreneurship).

⁶ Section 2.6 “People-to-people contacts”

The project is meant to meet these complementary objectives, and therefore implement in a comprehensive manner the ENP Action Plan's chapters on intellectual property, trade facilitation, structural reform, regulatory reform, enterprise policy, information society, and science and technology / research and development, keeping in mind the necessity to achieve them in a way beneficial both for the EU and Ukraine.

1.2. Lessons learnt

So far, enterprise-related projects have focused on improving the regulatory environment and training managers, bringing about overall positive, though so far limited results in terms of enterprise policy and development. While projects focusing on training of managers did not bring about tangible results, projects delivering direct services to enterprises (e.g. the "Support to the Ukrainian Initiative" project) appeared to be more successful at first sight. Yet, the absence of a sustainable follow-up mechanism has made their long-term impact on enterprise performance more than questionable.

At the one and same time, a series of small projects with the National Space Agency of Ukraine (NSAU), as well as indications from the Science and Technology Centre in Ukraine (STCU), have shown that Ukraine's research and innovation potential: (a) has remained considerable⁷, (b) is under-exploited and therefore subject to the "brain drain" effect (principally not directed towards the EU), and (c) is increasingly orientated towards civil applications (e.g. biological technologies, material design, environmental monitoring and protection, communication infrastructure). The last project with the NSAU (terminated 31 January 2006) has outlined the rationale and conditions for setting up a sectoral Technology Transfer Centre. These recommendations, as well as the encouraging feedback from NSAU have been duly taken into account while formulating the proposed measure.

In the context of the NIP 2004-2006 and even more in that of the ENP Action Plan, it appears that assistance to the enterprise sector should go beyond that stage and enter an area of concrete achievements in the priority area of industrial innovation with a view to: (a) building up a comprehensive policy framework and appropriate infrastructure conducive to the optimised use of Ukraine's research and development potential, (b) allowing for increased participation of Ukraine in European research programmes, and (c) facilitating efficient exchange of information and industrial co-operation with European businesses in innovative areas.

A review of past and current assistance provided by different donors in the sphere of financial services shows that it covered all the various segments of the financial sector. Yet, technical assistance projects they have been fragmentary and not all of them have been consistent with the country's European orientation. The evaluation of Tacis Ukraine 1996-1999 performance carried out in 2002 points positively at Tacis co-operation with the EBRD and other donors in the financial sector, particularly in funding the Ukrainian micro-lending programme. Under NAP 2005, a project will be launched with a view to designing a sector-wide development strategy for financial services.

On the Ukrainian side and at all levels, financial sector institutions have demonstrated their reliability as technical assistance partners. Out of experience, combination of assistance to the State authorities and the private sector has proven very efficient as it has facilitated response of the private sector while allowing the supervisor to understand feedback signals on its decisions. However, internal co-ordination of efforts between the above-mentioned stakeholders has proven problematic, and it appears that they are in need of significant external assistance in building co-ordination up to the level of institutional routine. They have expressed their wish to benefit from the EU's significant experience in that area, considering the recent enlargement.

⁷ This analysis was confirmed by the conclusions of a recent (8 February 2006) mission to Kyiv of DG Research and Technology.

1.3. Complementary actions

Tacis Commercialisation of Ukrainian Space Technologies and Regulatory Recommendations on Intellectual Property Rights (NAP2002, partially completed) - The two first phases of this project have shown the benefits that Ukraine's space industry could derive from the set-up and operation of a technology transfer platform. Having received a pre-approval from the NSAU, the project is working out the practical arrangements for the creation of this transfer system.

Tacis Strengthening of Ukraine's Financial Services Sector (NAP 2005) - The measure foresees the development and the start-up implementation of a national strategy aiming at aligning Ukraine's financial regulations with EU rules.

UEPLAC IV (starting June 2006) - The project is aimed at supporting Ukraine in the area of legal approximation. This project will therefore in charge of approximating rules in areas identified under the proposed measure.

Tacis Bank sector reform (on-going) - The project assists the improvement of industry practices in line with best international standards, following a demand-driven approach led by a group of ten selected Ukrainian banks. Priority areas addressed by the project are Credit and risk management; Branch network management; Financial control and Cost management; Internal audit; and Corporate governance. The results of these activities will be disseminated through a training campaign targeting a wider group of Ukrainian banking professionals and the bank supervisors from the National Bank of Ukraine (NBU).

Tacis Support to the Ukrainian insurance sector (starting March 2006) - The project aims to support the development of a trustworthy insurance industry in Ukraine by approximating its standards of commercial and regulatory practice to EU-recognised principles and benchmarks. More specifically, the project targets: (a) the development of the regulatory and supervisory capacity of the non-banking financial institutions (NBFI) regulator; (b) the provision of EU skills and knowledge to the Ukrainian Insurers' League and the insurance industry in the areas of life assurance, non-life insurance (especially TPL motor insurance), re-insurance and insurance intermediaries (brokers); and (c) the development of professional standards and technical skills for the nascent actuarial profession in Ukraine.

Tacis / EBRD SME Finance Support to Regional Banks and Banks with Large Regional Branch Network; and Ukraine Micro-Lending Programme – Regional expansion (starting March 2006, to be followed up under NAP 2005) - The projects' main objective is to provide training to participating banks with regards to short and medium-term financing to SMEs, and institutional strengthening of the regional banks of Ukraine and regional offices of nation-wide banks. Also, they provide additional assistance needed to spread lending to micro and small enterprises (MSE) to smaller cities and rural areas, and deepen outreach of lending operations to embrace express lending, capital investment and agricultural lending.

Tacis Mortgage market rules and legislation (on-going) - The project supports the development of a regulatory and legislative framework for establishing a modern mortgage lending system; the Ukrainian National Mortgage Association representing the concerned commercial banks; techniques for supervising commercial banks issuing mortgage bonds; valuation rules for property used as mortgage collateral; and regulation in the area of mortgage pledge register and mortgage bond prospectuses.

Tacis Fight against money laundering (on-going, to be followed up under NAP 2005) - The project aims to make Ukraine a law-abiding player in the international financial system, in compliance with the second objective of the present sector-wide project.

USAID Access to credit (on-going) - The project aims at mobilising credit for the use of SMEs, prospective home-owners, farmers and municipalities. The core components of this project lie in the areas of mortgage lending, municipal bonds, and financial leasing. They focus on developing: (a) an appropriate legal environment; (b) training programmes meant to build a knowledgeable layer of financial professionals; and (c) appropriate financial products meeting the needs of the Ukrainian SMEs, agricultural enterprises, and municipalities. As a result, Ukrainian banks and NBFIs should have a greater capacity to make business and home loans.

World Bank “E-Development Project for Ukraine” Project⁸, Information and Communication Technologies (ICT) component (US\$ 6 million, on-going down to 31 December 2006): This loan aims to enhance efficiency of the government's decision-making process for public procurement and documentation flow, foster private sector development, and strengthen civil society through introducing innovative ICT solutions. There are three project components: (a) a e-Government component provides for development and introduction of the public of e-Procurement and e-Documentation flow models; (b) a e-Business Environment component assesses the bottlenecks in current legislation that hamper e-business growth; and (c) a Public-Private e-Dialogue component will provide for on-line tools for an exchange of ideas between public authorities and representatives of the private sector and the civil society, both at the national and regional levels.

World Bank / Financial sector-related loans (on-going): The World Bank has supported financial sector reform through its Financial Sector Adjustment Loan and its Export Development Projects 1 and 2 (mainly designed for the Ukreximbank), the Development Policy Loan (DPL), and the Financial Sector Reform Project 1 and 2, foreseeing support to the NBU, the NBFI Regulator and the Financial Sector Policy Co-ordination Board).

1.4. Donor coordination

At working level, the various donors involved have been in regular contact with the EC Delegation on both components. Throughout the past years, the World Bank organised a number of round tables involving key players in the ICT sector of Ukraine and interested donors. At the moment, there is no other donors' direct assistance in the Information Society development field. The World Bank has recently⁹ outlined areas of co-operation with Ukraine (promoting competition in the communications sector; development of universal access and broadband infrastructure; reform of the telecommunications regulatory environment), where it emphasised its readiness to co-operate with the EC. Discussions on support to innovation processes have however started only recently, and are set to gain importance as other donors might become interested in complementing the proposed measure with concurring projects.

The World Bank has been leading the donor cooperation dialogue in the sphere of financial services, through regular round-table discussions involving the EU, USAID, IFC, the EBRD. Close co-ordination could be built up with the EBRD thanks to grant financing of the Ukrainian micro-lending scheme and the Micro-finance projects. All large institutions recognise the specific added value of EC technical assistance in areas where Ukraine has made commitments under the ENP Action Plan.

2. SECTOR CONTEXT

In what appears as an inheritance from its Soviet past, Ukraine's economy remains highly dependent on traditional industries - mainly metallurgy of ferrous and non-ferrous metals, and heavy chemistry. Ukraine also continues suffering from the traditional features of post-Soviet financial systems, mainly

⁸ <http://web.worldbank.org/external/default/main?pagePK=64027221&piPK=64027220&theSitePK=328533&menuPK=328566&Projectid=P074885>

⁹ Aide Mémoire of the World Bank's Ukraine Telecommunications Mission (June 2005, available on request from the EC Delegation to Ukraine)

the emphasis on classical lending primarily directed at large enterprises in traditional industries, and the lack of adapted means of financing for new or small and medium enterprises. However, after several years of gestation:

- the idea that innovating enterprises and joint education/research/industry projects should be supported is now gaining momentum within various government agencies, and particularly with the National Security and Defence Council and the Ministry of Economy
- high technologies are seen increasingly as an activity able to engage in and benefit from international co-operation and exchanges, and no longer as an area subject to State secrecy
- following the relative sorting out of the banking sector and the wide effort in favour of SME and micro-lending, the Ukrainian authorities are keen to work on implementing a comprehensive development strategy for financial services, fully taking into account the variety of financing needs of the economy and the need for EU compliance¹⁰.

While Ukraine is in the process of designing new innovation and financial services policies, it is important, as sought by the ENP Action Plan, that such policies be compatible with the relevant EU policies and rules. This is not the case for the moment. In addition, Ukraine has been only marginally associated to EU research programmes. Logically, analysis of the limited STCU-supported project activity as well as information collected on private projects demonstrates that research and industrial co-operation between the EU and Ukraine does not tap the existing potential. Similarly, a review of the education system shows that university-level education, while remaining of high standards in absolute terms, does not target the actual needs of the economy as it lacks feedback from business and strategic orientation based on a national development strategy¹¹.

Ukraine's policy response to these challenges in the areas of innovation and financial services (particularly for start-up businesses) is recent, unfinished and indecisive. A first wave of legislation, comprising the 4 July 2002 Law on innovating activities, the 16 January 2003 Law on priority sectors for innovation support, and the 20 April 2004 Presidential Decree on financial support to enterprises presenting a strategic interest for the innovation potential of Ukraine, merely instituted ad hoc support schemes, which succeeded in maintaining a good level of research potential in certain priority sectors, such as space technologies¹², but failed to resolve the issue of intellectual property, and to promote a coherent and sustainable framework for co-operation between businesses, research institutes, universities, and financing institutions.

In the narrower area of ICT, the main objectives of the current informatisation policy¹³ has been to facilitate the building up of a modern market economy and to increase competitiveness through introduction of modern technologies, taking into account the stage of development of the Ukrainian society and the practical feasibility of changes. The Ukrainian government has developed a National Informatisation Programme, while regional authorities and line ministries have designed altogether 16 regional and sectoral programmes. The Ministry of Transport and Communications (State Department of Communications and Informatisation) is in charge of the implementation of the National Programme, and is working on harmonising regional and sectoral programmes with the national level. So far, related public funding has been scarce. In 2004, the government allocated only UAH 7.7 million (€1.3 million) for the implementation of the National Programme¹⁴, while regional programmes could not mobilised more than UAH 19.5 million (€3.2 million) from local budgets. A

¹⁰ Design of this strategy is foreseen under NAP Ukraine 2005.

¹¹ On 8 February 2006, the Ministry of Economy released its report on Ukraine's strategic development sectors. Their definition, however, remains to be refined, which this project will allow to do.

¹² In November 2005, the NSAU signed a co-operation agreement with the US NASA.

¹³ In Ukrainian only: <http://www.stc.gov.ua/ukrainian/info/politics>

¹⁴ <http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=181%2D2004%2D%F0&p=1101205188022078>
(Ukrainian only)

number of new projects started to be implemented in 2005 (budget figures not available for the moment).

The same reserves apply to the financial services area. The most recent available policy document insists that the government's policy "will be targeted at the development of reliable and transparent financial services markets as the key source of internal investment resources, and at the creation of conditions for efficient mobilisation and placement of financial resources by market participants, taking into account the interests of each individual citizen and of society as a whole." To date, however, none of the regulators concerned has come up with a clear, time-bound implementation plan supporting their individual strategies, nor have they succeeded in transforming them into a coherent national strategy embracing all segments of the financial market. Nevertheless, in spite of their apparent dispersion, all the concerned authorities share the same development goal of alignment with EU rules and practices, and achievement of free movement of capital and financial services in their relevant sector segment.

However, understanding of the strategic issues at stake is gaining ground rapidly within the government, and needs are now easier to circumscribe. The idea behind the NAP 2005 financial services project is widely supported within the relevant government agencies. A Presidential decree issued on 4 October 2005 requested the government to develop an "innovation-based model of economic development". Another Decree released 30 December 2005 established a National Innovation and Investment Agency, to be supposedly endowed with substantial budget resources, and to focus on (a) defining efficient inter-institutional, legal and financing schemes in support of innovation, and (b) providing for an inventory of available R&D resources. As it stands now, this new institutional set-up appears to have the potential, if properly implemented, to release adequate budget resources and create very favourable conditions for the project. Part of the project will therefore be directed at ensuring the translation of these Decrees into efficient practice, drawing the lessons from EU experience.

3. DESCRIPTION

3.1. Objectives

The overarching objective of the project is to develop high technology-based synergies with the EU industry (including the promotion of excellence poles, or "clusters" allowing to create active of networks educational institutes, research laboratories, industries and service providers, the development of the e-economy and the increased participation of Ukraine in European research programmes). Together with the consecutive attractiveness of the country for researchers and innovating enterprises, this will lead to invaluable innovation potential to remain in Europe, close to the interested EU businesses, and with eased access to EU patenting procedures. The project will secondarily assist Ukraine in maintaining economic and social stability by sustaining the international competitiveness of its socio-economic pattern, supported by adequate and reliable financial services¹⁵, in the context of its progressive integration into the European and the world economy. Finally, in insisting on sustainability of action, the project seeks to strengthen government co-ordination (under a format to be agreed) of the initiatives that this project should help trigger or federate in the innovation and financial services areas.

In addition the overall aim also relates to improving the Ukraine's attractiveness for foreign investors in innovative fields.

Specific objective 1. Support to knowledge-based competitiveness

The project endeavours to establish in national policies and further implement the basic principles of the Lisbon strategy, by reinforcing the institutions responsible for designing or co-ordinating

¹⁵ Particularly with regard to the financing of research projects and their translation into industrial innovation.

“backbone” competitiveness initiatives (*i.e.* electronic communications or enterprise policy) and by promoting their implementation and duplication of their achievements at practical level, notably with small and medium enterprises in innovative industries.

The project is committed to the horizontal nature of industrial policy and will jointly address policy, regulatory and financial challenges, with a view to ensure the best business-friendly framework conditions for Ukraine and its EU industrial partners in activities related to innovative technologies, products or processes. With due regard to the costs involved in pursuing this objective, the project will seek as a priority the endorsement of a strategy and a medium-term expenditure framework, to which it is seen to be a contributor.

Specific objective 2. Support to the development of the financial sector

The project will in parallel pursue implementation of the national financial services development strategy to be developed under NAP 2005, in a move to make domestic financial services and markets compatible with their EU equivalents and improve the financing environment of R&D developers.

3.2. Expected results and main activities

Support to knowledge-based competitiveness

Expected results

- National innovation strategy developed and its implementation started in priority branches¹⁶, including the high-tech sector. Implementation measures are sustainable
- Participation of Ukraine in European research programmes has increased
- Regional "Innovation clusters" established and comprehensive approach to EU patenting established
- Support to further development of Information Society services and technologies has been provided, in close co-operation with other donors and IFIs

Main activities

- Institutional activities / Policy advice
 - Assess Ukraine’s innovation policies, patenting rules and procedures,
 - Assess Ukraine’s electronic communications policy and develop recommendations on its harmonisation with EU policies
 - Develop and maintain, *via* a permanent expert group, a National innovation strategy (integrating the technological and business dimensions and enabling modern ICT technologies) in close cooperation with stakeholders, considering the macro-, meso- and micro-levels of initiatives in the area, and assist in its implementation with a focus on sustainability (medium-term expenditure framework, adequacy between measures and profiles of implementing agencies...)
 - Support in assessing the National innovation potential, priority sectors for potential co-operation with European businesses in innovative projects, and for implementation of the national strategy¹⁵

¹⁶ Synergy to be evidently sought with the priority industry branches selected under the NAP2005 “Technical Assistance to Ukraine on Norms and Standards” project

- In co-operation with the stakeholders concerned, including other donors and IFIs, assist in developing modern electronic communications policy and regulations and promotion of specific services, such as universal access to broadband communications. Get the stakeholders to endorse the strategy and assist in its implementation.
- Develop a better identification and anticipation of structural challenges at government and entrepreneurs levels. Complementarily, support stakeholders to come up with, and use the best policy mix in order to facilitate changes and help attract secured investments as a means of sustainability and successful development
- Strengthen innovation management capacities, both in responsible administrations and in innovative enterprises. Regarding regulation, comprehensive support to the National Communications Regulatory Commission (NCRC)
- Assist in assessing and designing Innovation clusters
- Assess the consequences of the national innovation strategy for the educational system, including the building-up of effective feedback mechanisms to maintain a satisfactory matching between the evolving demand and offer of technical and managerial skills
- Promote participation of Ukraine in the European research programmes (including FP5, FP6 and FP7).
- Development and promotion activities
 - Benchmarking cases: Assist in establishing Innovation clusters, if and as recommended by the National innovation strategy, monitor successful ventures, disseminate successful methods and low-cost duplication of the above
 - Benchmark and duplicate a network of regional innovation / investment agencies¹⁷
 - Develop cross-platform ICT infrastructure and faster Internet access in the country
 - Support to deepen Internet skills and widen Internet usage by businesses, citizens and government, including *inter alia* progressive introduction of e-government tools (Public services for citizens and businesses)
 - Monitor the level of participation of the Ukrainian researchers in EU-funded programmes.

Support to the development of the financial sector

Expected Results

- National financial services sector strategy implemented in co-ordinated way. Continuous support to implementation. Implementation results are sustainable.
- Improved transparency of the sector, further consolidation of the banking and insurance segments through improved standards and practice of prudential supervision and increased attractiveness for foreign investors.
- Longer-term specific objectives and medium-term financial expenditure framework implemented.

¹⁷ To be carefully co-ordinated with the development phase (NAP 2006) of the Regional development project

Main activities

- Maintenance of sector-wide National financial services development strategy developed under NAP 2005 (institutional set-up, functioning and inter-relationships; regulation, role of the State, place and role of consumers; markets and products; interaction with international financial markets...)
- Implementation support, focusing on sustainability of action, to the agreed priority actions and monitoring of the National strategy, including by way of:
 - Institutional capacity building of the financial regulators and the regulating bodies of the accountancy and audit professions (focus on Basel Capital Accord II's implications, risk-based supervision, consolidated supervision, change management skills for senior management, human resources management, professional training...).
 - Legal approximation and support to the implementation of regulations (probable focus on transparency issues and corporate governance, including framework for truly independent risk management function in financial institutions)¹⁸
 - Support to the improvement of industry practices along recognised European and international standards, including activities targeting the private sector (banking and non-banking institutions, auditors and accountants, support to credit bureau, establishment of bank training institute, further professionalisation of financial institution management).
- Improvement, in a sustainable way, of SME financing framework and access to adequate means of finance for enterprises (primarily SMEs), including the innovative industries and for joint research/industry projects; in particular establish an adequate framework of regulation, skills and dissemination mechanisms for risk capital finance

3.3. Stakeholders

At present, the following stakeholders are actively involved in the areas covered by the proposed measure:

- The President's Administration, where a State secretary is in charge of following up the innovation issue
- The Ministry of Economy (MinEco), which is executing the 4 October 2005 Decree and is de facto co-ordinating the design of the new policy
- The Ministry of Education and Science (MES), with particular help from the National Academy of Sciences (NASU)
- The National Space Agency of Ukraine (NSAU), which is being periodically consulted by the government
- The National Bank of Ukraine (NBU), in particular the Policy support group created in 1999 under the NBU Council
- The State Commission for Non-banking Financial Institutions (Non-Banking Financial Institutions Regulator - NBFIR)
- The State Securities Markets Commission (SSMC)

¹⁸ The project will focus on identifying priorities for approximation, whereas approximation *per se* will be dealt with by the UEPLAC project, following Ukraine's institutional procedure for legal approximation

- The Ministry of Industrial Policy (MIP) and the State Commission for Regulatory Policy and Entrepreneurship (SCURPE) could be interested in being associated to the project.

Other stakeholders include the State Department on Intellectual Property, the National Committee on Regulations in Communications, the State Department of Communications and Informatisation of the Ministry of Transport and Communications, various lines Ministries involved in research financing (Ministry of Agrarian Policy,...), Ukrainian universities, business communities such as the Ukrainian Union of Entrepreneurs and Industrialists, and the civil organisations active in project areas. Given the large array of potential recipients, the Cabinet of Ministers of Ukraine should be the project's Beneficiary agency.

3.4. Risks and assumptions

There are two main risks to this project. The current economic and legal environment makes it difficult to introduce EU-compliant schemes, particularly in the financial services sector. The project will therefore try and impact on this situation, allowing for large-scale transfer and wider use of the necessary skills for sound institutional and commercial activities, but also actively promoting legal approximation in the relevant areas.

The internal risk is more a question of managerial capacities within the project stakeholders, both public and private, and their commitment towards actual implementation of the National strategies developed by the relevant project components. Increasing awareness of the need to improve their activities, helped by the general political environment, should reduce this category of specific risks.

3.5. Conditionalities

For the moment, two core conditionalities for project success have been identified:

- Adequate endowment of the project-related State policies with budget and human resources (*i.e.* effective execution of medium-term financial expenditure framework)
- Prior to launching an action, commitment of the Ukrainian authorities at all relevant levels to achieving compatibility of policies and standards with their EU equivalents

3.6. Crosscutting issues

The impact of the contemplated measure on cross-cutting issues can be summarised as follows:

Development/crosscutting objectives	Directly targeted objective	Significant indirect impact
Poverty reduction		✓
Good Governance	✓	
Democracy, Human rights		✓
Integration in world (EU) economy	✓	
Environment		✓
Gender		✓
Conflict resolution/Peace building		✓

4. IMPLEMENTATION ISSUES

4.1. Implementation method

Centralised management

4.2. Budget and calendar

Indicative budget breakdown:

Support to knowledge-based competitiveness	€10 million
Support to the development of the financial sector	€7 million

The project will be implemented as appropriate via technical assistance (service contracts), grants to international organisations under the co-financing regime, supply of equipment, sector programme support and twinning. Contributions by the Beneficiary country shall be discussed further during the project preparation phase.

Operational duration:

Maximum 48 months.

4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the European Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.4. Performance monitoring

The project will be monitored according to standard procedures.

Project monitoring and evaluation will be based on periodic assessment of progress on delivery of specified project results and towards achievement of project objectives. Regular presentations to the EU-Ukraine Subcommittee on Economic and Social Affairs, Finance and Statistics will ensure in-depth involvement and commitment of the Ukrainian side to the monitoring from the project partner's side.

4.5. Evaluation and audit

A final evaluation will be envisaged, whereas usual project audit rules will apply.

Ukraine's ICT Development Summary

Ukraine significantly lags behind all neighbouring countries that recently joined the European Union (EU) regarding most indicators of electronic communications development¹⁹. For example, relative to population, Ukraine has the lowest number of mobile phones and Internet bandwidth, and the second lowest number of fixed phones.

As a consequence of this among other factors, Ukraine ranks among the lowest countries in the region in terms of network readiness and global competitiveness, as shown by the selected indicators below:

	<i>Fixed teledensity (2003)</i>	<i>Cellular teledensity (2005)</i>	<i>Monthly telephone subscription (US\$)</i>	<i>Intern'l Internet bandwidth per cap (bps)</i>	<i>Network Readiness Rank</i>	<i>Growth Competitiveness Rank</i>
Belarus	31%	28%	0.65	20	-	-
Moldova	22%	21%	1.72	19	-	-
Russian Fed.	25%	56%	4.22	84	62 (63)	70 (70)
Ukraine	22%	33%	0.95	19	82 (78)	86 (84)
Bulgaria	38%	65%	5.90	24	73 (67)	59 (64)
Czech Rep.	36%	108%	10.60	3,235	40 (33)	40 (39)
Estonia	34%	97%	7.07	1,185	25 (25)	20 (22)
Hungary	35%	80%	14.31	988	38 (36)	39 (33)
Latvia	29%	71%	5.26	220	56 (35)	44 (37)
Lithuania	24%	108%	7.52	95	43 (42)	36 (40)
Poland	32%	65%	9.00	165	72 (47)	60 (45)
Romania	20%	49%	7.24	112	53 (61)	63 (75)
Slovak Rep.	41%	81%	9.74	1,846	48 (41)	43 (43)

Sources and dates:

Fixed teledensity, monthly subscription and international Internet bandwidth are ITU, data for end 2003

Cellular teledensity is calculated based on subscriber data from EMC cellular database, data for March 2005

Network Readiness Rank and Global Competitiveness Rank are published by World Economic Forum. The rankings refer to 2004 (in brackets 2003), out of a sample of 104 countries (102 in 2003)²⁰

Data in italics are estimates based on previous year applying average growth for the sample

¹⁹ Telecommunications Policy Note: "Electronic Communications in Ukraine: The Bottleneck to Sustainable Development", World Bank, 2005

²⁰ The World Economic Forum conducts annual evaluations of Network Readiness Index (NRI) and Growth Competitiveness Index (GCI) to estimate respectively the countries' readiness for Information Society and overall competitiveness of their economies.

Recent evolution of the Science & Technology sector in Ukraine²¹

Years of attempts at establish a market economy in Ukraine have shown that the country failed to provide the financial support required to maintain its science and technology sector at the levels attained during the Soviet rule. A drastic reduction in scientific research funding occurred, including cutbacks in research equipment budgets. It became common for big research groups to break up into smaller ones, with scientists channeling their energies into meeting the interests of foreign customers and securing opportunities for participating in research projects generated by the West. Many middle-aged scientists left their academic bodies for more profitable careers. Many left the country to live abroad (mainly outside the EU).

Structural changes in Ukraine's economy also had a negative impact upon the dynamics of S&T growth and innovative development. During the 1990s, the GDP share of high-technological industries in Ukraine grew smaller than that of mining industry and fuel and metallurgy complex. This way, the country's leading industries appear to be not science-intensive. Their dominance in the economy, therefore, leaves idle most of the S&T potential and does not allow S&T to play its role in boosting demand. Other business enterprises have been also contributing to low S&T growth by failing to stimulate innovation and knowledge transfer. Indicator values for innovation activity (level of introduction of new technologies, inventions...) fell steeply during the 1990s. The most substantial decline can be observed in the technologically developed industries.

In 2000-2004, the considerable economic growth was not accompanied by fundamental structural changes and was again characterised by the prevalence of primary product processing industries or the modular assembly of cars or computers using imported components²². The domestic market did not create a high enough demand for domestically manufactured products, especially in the machine building industry, the pharmaceutical industry and high-technological services, let alone the electronics industry. Yet, the positive changes in the general economic situation in Ukraine have brought about some stabilisation in its science system, both in terms of number of researches and S&T crisis, and in that area Ukraine remains a largely untapped potential.

²¹ Based on Goskomstat data and remarks from the British Council Study "Ukraine: a Science and Technology Profile", 2001. More data, particularly on the level of R&D expenditure, is available on request from the EC Delegation to Ukraine.

²² According to current international classifications, such activities can be attributed to low technology production that requires neither high qualifications nor R&D input.