This is a timely CAS review that considers the changing circumstances in Ukraine during the last months, giving a prompt response to the new political and economic environment. In our opinion, this is a clear case where close coordination and permanent consultation between the World Bank and the IMF is mandatory.

Under the current circumstances we agree that, unless there is a strong commitment on the part of the Ukrainian authorities to carry out deep reforms in the fiscal area directed to diminishing the risk of fiscal collapse, the World Bank assistance must be kept under a lower-base scenario. These reforms, as underlined in the document under consideration, must be up-front in order to play down any possibility of a reversal.

At this time, we would like to mention three main concerns regarding the current review:

1. **Lack of support of government policies** - According to the CAS Review, the recent parliament elections, held last March, have contributed to the increased difficulties in carrying out ongoing reforms, resulting in the current CAS Review. On the other hand, later this year the World Bank will start discussions with the Ukrainian authorities, upon their ministerial changes, on a new long-term strategy. Consequently, the new CAS will be presented to the Board in 1999.

   Since presidential elections will take place in the summer of 1999, we would like to know if possible government changes in the forthcoming presidential elections could result in a major shift in the strategy that the Bank is intending to present to the Board next year. We are aware of the urgency of such strategy, but perhaps it would be more appropriate to present it to the Board once the new government takes office. A political outlook for the short-term would have been welcome.

2. **Progress in Ukraine’s private sector** - Although we acknowledge that progress has been made in this sector, much remains to be done, especially in the sectors of energy, infrastructure, and agriculture. More than 8,500 of small, as well as medium-size
enterprises have been privatized since 1992. We believe that Ukraine offers a good opportunity for IFC to operate and to help the country develop its private sector. In this sense, we are struck by the fact that IFC operations in this country are very limited. The same occurs with MIGA. IFC involvement in this country could be seen as a good benchmark to assess implementation of private sector development. We are very disappointed with the results achieved to date and we would like to know whether these are due to the difficulties for the World Bank Group to operate with the private sector in Ukraine, or by the fact that there are other institutions like EBRD which are more deeply involved in the private sector. We think that IFC involvement with small and medium-size enterprises is especially valuable. On the other hand, we think that it would be important to set a private sector strategy along with other important partners of the region, such as EBRD.

3. **World Bank Assistance** – We would like to confirm the importance of World Bank’s assistance to the progress made in the fiscal area. We believe that the Bank must work very closely with the IMF and split the role of each institution in the areas in which each has a comparative advantage. Undoubtedly, this is one of the most compelling necessities Ukraine faces in the short term, and its failure would jeopardize its reform process. There must also be political consensus on this matter, since there is no time to wait for the forthcoming presidential election. EDI’s role could be outstanding, but we would like to know if this department has any concrete strategy for this country in the coming year.