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FROM: Vice President and Corporate Secretary

Summary of Discussion at the Meeting of the Executive Directors of the Bank and IDA, April 7, 2009*

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* This summary consists of staff notes of the discussion and is not an approved record.

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UKRAINE – ROADS AND SAFETY IMPROVEMENT PROJECT

1. The Executive Directors approved a loan of US$400 million for Ukraine for a Roads and Safety Improvement Project (R2009-0056 and R2009-0056/1, dated March 19, 2009).

2. **Staff Introduction**. Staff said that the Ukrainian economy had deteriorated sharply since the beginning of the global economic crisis, but that economic rebalancing was now underway. The World Bank had a three-pronged response with fiscal adjustment to protect the vulnerable, support for structural reforms to ensure recovery and growth, and investments in critical infrastructure. The first two objectives were supported through Development Policy Lending (DPL), which was tied to implementation of Ukraine's IMF program. The IMF team was returning to Kiev and had received strong commitments from the authorities to tackle fiscal and banking sector issues that had been holding up completion of the first Stand-By Arrangement. The proposed project addressed the third prong of the response. There had been chronic under-investment in infrastructure since independence in 1991, and staff believed that the proposed operation was timely and consistent with advice on tackling the economic crisis. Staff responded to speakers' written questions in a detailed written statement.

3. **Support for Project**. A number of speakers expressed their support for the operation, commenting that it was a well-designed project with a clear development impact, consistent with the CPS. Speakers noted the impact of the global crisis on Ukraine, which had undermined economic growth. Improvement of transportation arteries was critical to Ukraine's economic growth and competitiveness, especially with metals and agriculture. Several speakers could support the project, but outlined some reservations. They emphasized the importance of meeting IMF targets, given these were central to Ukraine's economic development.

4. **IMF Program**. Several speakers expressed concerns about progress under the IMF program against a difficult political back drop. Although he had strong reservations about the proposed operation, one of them was convinced about its benefits for economic development and was encouraged by news of progress in meeting IMF targets. Some other speakers expressed concern about the timing of the meeting. They said that the Bank should emphasize to Ukraine the need to address political and fiscal problems to facilitate IMF Balance of Payment support and resumption of World Bank budgetary support. Key reforms related to previous World Bank DPL operations were also important to free up additional international support for Ukraine. One speaker welcomed news that there was a good chance that the program with the IMF would get back on track.

5. The Acting VP for ECA understood speakers' reservations regarding the situation with the IMF, and said the Bank was concerned about the conditions that had led the IMF program off-track. The Bank was working with the IMF, European institutions and bilateral organizations to send a strong and consistent message about the need to be on track.

6. **Government Contribution.** Several speakers noted that Ukraine was responsible for 20% ($100 million) of the project's financing requirements, but observed that the currency had undergone a large adjustment and tax revenues had been greatly reduced. They asked how resources would be secured if the IMF program did not proceed as scheduled and if there was a shortfall in budget allocations.

7. Staff said that the authorities attached high priority to rehabilitation of the main inter-city transport corridors. Bank staff was advocating fiscal reallocations in the context of its DPL program that would safeguard critical infrastructure spending, and it was likely that funding would be made available.

8. **Governance and Anti-Corruption (GAC) Action Plan**. A speaker supported the terms of the GAC Action Plan and welcomed inclusion of capacity building as the third component of the project. Weak governance and corruption posed a development challenge for Ukraine, especially in the roads sector. Another speaker noted that the outcome of recent public sector reform was rated "moderately satisfactory" despite three adjustment loans and two technical assistance loans. He urged the Bank to step up monitoring and supervision to ensure that scarce resources were spent on their intended purposes. Some speakers were concerned that the amount allocated to capacity building was relatively small.

Another speaker asked for staff views on the main project risk, which was from the potential conflict between the project authority and the Ministry of Transport.

9. Staff said that the GAC plan committed the implementing entity Ukravtodor to full compliance with World Bank fiduciary standards and the project included operational audits covering procurement, the internal control framework and technical inspection. Staff would closely monitor progress with road rehabilitation, safety measures and institutional development. The project would supplement the capacity building measures already being financed through EBRD and EIB loans for the sector. The Ministry of Transport had been reluctant in the past to give Ukravtodor as much autonomy as required by statute, so this was tagged as a risk.

10. **Transportation sector.** Several speakers appreciated staff's analysis of the importance of road transportation to Ukraine's economy and exports, especially in light of its transit role between Russia, other CIS countries and the EU. They noted the safety issues and high fatality rates on current roads that the project would help to address. Some speakers asked why the project invested 60% of its budget in the eastern part of the country when the rationale was to link Ukraine with EU countries. They noted that the proposed loan size was significant relative to Ukraine's infrastructure portfolio, and the project prioritized road transportation over other more environmentally friendly modes.

11. Staff described the government's commitment to development of infrastructure, which also included rail modernization and energy efficiency. Road transportation had increased more rapidly than other modes, leading to congestion and accidents. This stemmed from a greater reliance on semi-finished and finished products, which increased demand for road transportation. The project focused on the eastern sector because EBRD and EIB loans focused on upgrades of the western road network leading to EU countries. The project supplemented ongoing EU support under the TACIS program aimed at improving road safety.

12. **Infrastructure Investment**. A speaker noted that the CPS for FY08-11 provided for one major infrastructure investment each year. He asked how these investments were progressing, as well as about projects in the pipeline and the extent of private sector participation.

13. Staff said that there were rail, clean technology, energy and transmission operations at various stages of preparation. The roads project included provision for private contracts for construction and civil consulting works. Parliament was currently considering a public-private partnership law, and the Bank could make enactment of this a benchmark for the future DPL.

14. **Employment**. Several speakers commented that the project had the capacity to expand employment in the construction sector, which had been particularly hard hit by the current crisis.