



Ministry of Economy
of Ukraine



United Nations
in Ukraine

Capacity Assessment Report

Aid Effectiveness, Coordination and Management in Ukraine

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and
United Nations in Ukraine

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Aid Effectiveness, Coordination and Management in Ukraine

2007

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The joint Ministry of Economy/United Nations capacity assessment was made possible through the support of CIDA and DFID.

The following assessment was prepared by a team of independent consultants. The analysis, findings and recommendations are those of the consultants and do not necessarily represent those of the United Nations, Canadian International Development Agency, the United Kingdom's Department for International Development or the Government of Ukraine.

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Ministry of Economy of Ukraine and United Nations in Ukraine

Joint Capacity Assessment: Aid Effectiveness, Coordination and Management in Ukraine

Executive Summary and Action Plan	4
Part I: Introduction	7
Assessment Background	7
External Assistance in Ukraine’s Social and Economic Context	8
Importance of External Assistance to Ukraine’s Development	8
Value-added of External Assistance	9
Part II: Situation Analysis, Findings and Recommendations	10
Government’s Capacity to Utilize External Assistance	10
Overview	10
Capacity to Define Priorities and Strategies at National, Sector and Regional Levels	10
External Assistance Coordination Strategy Capacities	11
External Assistance Management Capacities and Results Orientation	12
Public Financial Management (PFM) and Procurement	13
Overview	13
Public Financial Management in Ukraine	13
Procurement	15
Sector Wide Approaches (SWAps)	16
Direct Budget Support (DBS)	18
Architectural Structure for Aid Coordination	19
Overview	19
Legal and Regulatory Framework	20
Present Institutional Architecture in Ukraine	21
Conclusions and Recommendations	23
Donor Readiness for Cooperation	25
Overview	25
Dialogue	25
Ownership	26
Alignment	26
Harmonization	28
Managing for Results	29
Mutual Accountability	30
Annexes	31
Annex A: Common Practice: Major Responsibilities of Government Authorities in Aid Coordination	31
Annex B: Toward Achieving Paris Declaration Commitments	34
Annex C: Terms of Reference	36
Annex D: List of Interviewees	39
List of Acronyms	40

Executive Summary and Action Plan

Ukraine is not an aid dependent country. Ukraine does receive substantive amounts of aid in critical areas to help advance governance and living standard improvement as well as dealing with humanitarian issues.¹ Over 30 donors are involved in Ukraine in a variety of areas. External assistance to Ukraine was around \$1.5 billion in 2006.² About one third of this amount was technical assistance. While the financial amounts are small, amounting to about 2 percent of GDP, the impact of the assistance is multiplied by the effect of making necessary changes to help the country achieve its critical social and economic challenges.³

There is strong interest by the Government and the donor community to strengthen aid coordination so there is a more efficient and effective use of external assistance. This is recognized by the Government per their request for this assessment. As well, it is reflected in the Government's commitment as a signatory to the Paris Declaration on Aid Effectiveness.⁴ This commitment creates obligation on behalf of the Government as well as the donor community. Initial discussions have included a Workshop on Aid Coordination and the Paris Declaration, organized by the United Nations. There are also efforts by some individual donors to align their respective programs within the Paris Declaration obligations. One bilateral country donor has used a financial support mechanism advocated by the Paris Declaration as a test case. Importantly, the European Union is prepared to provide significant budgetary-type support, if Ukraine is prepared, as early as 2008, and provide other financial modalities more in accord with Paris Declaration commitments. Ukraine is eligible for U.S. Millennium Challenge Corporation's Threshold Program which could lead to more budget-oriented support under a Compact agreement.

Given the expected change to more direct financial support modalities by donors, the Government must have the strategy, programming, public financial management, procurement, monitoring and coordination capacities aligned with the proper institutional set-up driven by national leadership. Currently, the Government does not possess these capacities and the institutions are not properly in place. National leadership

to drive the achievement of Paris Declaration commitments to increase aid effectiveness is absent.

Opportunities to receive such assistance are now being missed. There is a definite sense in the donor community that a significant Government-led effort is necessary to build such capacity with the accompanying national leadership. There is now a 'window of opportunity' to advance on resolving these issues. However, this window will most likely be open for only the next 1-2 years before donors find other more cooperative partners.

Donors have a responsibility also. Donors use competing parts of the system or go around the current system to make their respective programs work. Donors use 'ad hoc' mechanism to coordinate themselves on issue and sector approaches, programming and monitoring. Thus, the system is more supply driven than demand driven. There are negative results of such of an approach including that funds provided are not fully disbursed, programs are not fully implemented or completed, or relevant programs are not proposed. There is little discussion of 'effectiveness' except for such monitoring and evaluation done by the donors themselves. Though small in terms of the financial amount, Ukraine simply doesn't attract the external assistance it warrants and isn't receiving the full value of the assistance it receives. While a full external assistance assessment has not been completed, it can be said that Ukraine can attract additional donor funds and programs if a more coherent external assistance coordination system was in place as a component of its overall development strategy.

Donors themselves, the Ministry of Economy's Directorate for the Coordination of International Technical Assistance (DCITA) and other parts of the Government at the central and line ministry levels realize these weaknesses and recognize the need for change to occur. Recent efforts are evidenced by establishing Donor-Government Working Groups (DGWGs) based on key sectors and issues and current work on redrafting the main Cabinet regulation dealing with external assistance. Donors are also preparing, with directions from their headquarters as well as on on-the-ground thinking, of how to meet Paris Declaration commitments in the Ukrainian context.

Presented here is a recommended program. Donors and Government, under Government leadership, need to agree on 1) more exact timing to address the capacity development and other issues listed below; 2) identify Paris Declaration targets taking into consideration capacity development

1 For the purpose of the assessment, aid or external assistance is defined as humanitarian assistance, technical assistance, grants, credits, loans and financial budgetary support provided by an external donor.

2 Source: Department for the Coordination of International Technical Cooperation (DCITA), Ministry of Economy.

3 Source: ODA Snapshot for Ukraine prepared by UN RCO based on data from OECD/DAC and World Bank websites. Background Paper on Capacity Assessment for Aid Coordination and Management in Ukraine.

4 The Government of the Ukraine is a signatory of the Paris Declaration but it has not yet been ratified by the legislature.

and institutional restructuring needs. The recommendations fall into the following categories:

- The Government's capacity for utilizing external assistance and the strategies needed to facilitate attracting and effectively utilizing funds,
- Public financial management improvement needs by looking at the overall public financial management system, procurement and the ability to apply Sector Wide Approaches (SWAs) and direct budget support.
- The architectural structure for aid coordination with an emphasis on having visible senior leadership and improving the current Ministry of Economy's structure to improve capacity in the future, and
- Donor readiness for cooperation to help improve the aid coordination and management capacity in line with Paris Declaration commitments.

The purpose of the assessment is to provide guidance and options, mainly to the Government, to help improve its aid coordination system within the context of its current main driving force in the medium term: the European relationship and how this evolving relationship will help Ukraine develop international standards and integrate within its regional and global context.

Immediate

Overall and Strategy Formulation to Improve Capacity

1. A joint donor-government structure to implement Paris Declaration commitments. It should be endowed with a stand-by facility to identify and address opportunities to advance the reform process. A priority area should be the strengthening of the strategy and policy formulation, management and coordination process. Other areas are outlined below. The structure should also be tasked with monitoring progress on the Paris Declaration commitments, including identifying target dates.
2. Create an inter-ministerial Government steering committee to manage the implementation of Government efforts towards meeting its Paris Declaration commitments.

Short-Term (0-12 months)

Strategy Formulation to Improve Capacity

1. The Government, with donor support, should formulate a coherent external aid policy framework describing the goals, modalities, priorities and processes

of external assistance. The framework would consist of 1) an External Assistance Assessment; and 2) a revised Strategy for Attracting International Technical Assistance.

Public Financial Management and Procurement

2. Government leads to propose Public Financial Management (PFM) reforms. Government takes the lead to implement the PFM Modernization Project Action Plan.
3. Government rescinds the recent procurement law amendments. The authorized agency becomes a public entity. The Antimonopoly Chamber devolves all responsibility for public procurement.
4. Regulations on establishing information based on public procurement and transparency. Government-donors conduct joint work on designing public procurement performance indicators and disseminate information to the public to bolster private sector and donor confidence in the procurement process.
5. Government and donors prepare an Issues Paper to describe and decide very specifically what has to be designed for sector-wide approaches (SWAs) and director budget support (DBS) to become workable modalities.

Aid Coordination Architecture

6. Review the current aid coordination and management legislative framework and draft, in cooperation with the donor community, and adopt a unified external legal framework that is transparent and workable.
7. Conduct an in-depth functional analysis of the Government aid coordination architecture with an aim to establish a streamlined structure. Immediately implement analysis results.
8. Appoint a single external assistance National Coordinator at the senior level of Government.
9. Institutionalize regular high level policy meetings.
10. Review and refine the DGWG structure and existing terms of reference to make them more realistic and workable.

Donor Readiness for Cooperation

11. Donors plan more collaborative programming and monitoring missions as well as common issue studies. To help make better use of the DGWGs, several theme or sub-theme groups are selected as test cases where joint programming and monitoring or evaluation missions can be planned.

12. Donors streamline and more clearly identify their interests and comparative advantage to government so that DCITA (or other relevant bodies) have a clear idea of what the specific donor will support.
13. Donors continue to help strengthen and work within the DGWG framework to identify a set of common (i.e. used by more than one donor) indicators for their respective sectors and sub sectors to provide guidance on sector and aid investment performance.

Medium -Term (13-24 months)

Strategy Formulation to Improve Capacity

1. Set up an internal permanent coordination structure for the preparation of a rolling medium-term national development plan including an external assistance strategy.
2. Develop and adopt a common methodology for results-based management within Ukraine's state administration. Roll-out results-based management system throughout the state apparatus (medium- to long-term).

Public Financial Management and Procurement

3. Government prepares for medium-term and performance budgeting (sector plans with indicators, targets, and monitoring and evaluation mechanisms).
4. Government bases policies on realistic macroeconomic assessment of resource constraints and consistent allocations (macrofiscal modeling, public investment budgeting for growth).
5. Government integrates public procurement with budget planning and execution.
6. Public procurement auditing responsibilities are made more clear and strict.
7. Public campaign to raise procurement awareness to the general public.
8. Government aligns public procurement with EU and international requirements (WTO).
9. Government imbeds a SWAp in a well-formulated sector and/or national strategic plan.
10. Donors choose lead donors to move forward with the Government on selective SWAp ideas via one or more DGWGs.

11. Government improves local budgeting functions and civic participation; involve local governance and private sector in performance monitoring and evaluation; use decentralization and empower civic groups to participate in SWAp initiatives.
12. Direct budget support becomes a part of disciplined macroeconomic management and budget execution.

Aid Coordination Architecture

13. Focus the yearly donor conference on one wide particular sector or area, such as public administration reform, judiciary reform, education, public procurement reform, etc.
14. Continued strengthening of the DGWG network so it is functioning regularly in a limited number of areas where the clear leadership of the Government is present.

Donor Readiness for Cooperation

15. Donors transition from project-based to programme-based assistance as capacities and modalities are established. Donors (with Government input) prepare a strategy to use established systems for SWAps and budget support as capacities are developed.

Long-Term (25-48 months)

Public Financial Management and Procurement

1. Government makes medium-term expenditure framework part of budget formulation.

Aid Coordination Architecture

2. Depending on the Government's policy priority, establish a single national coordinating institution responsible altogether for aid coordination and European integration. This institution could take the form of an office, ministry or government agency attached to the Prime Minister or the President. The entity reports to the National Coordinator.
3. The National Coordinator receives a broader mandate to coordinate both European integration process and aid coordination to reflect the long-term policy strategy formulated.

Donor Readiness for Cooperation

4. Donors commit to phase out the use of program and project implementation units.

Part I.

Introduction

Assessment Background

Ukraine is not an aid dependent country. Ukraine does receive substantive amounts of aid in critical areas to help advance governance and living standard improvement as well as dealing with humanitarian issues.⁵ Over 30 donors are involved in Ukraine in a variety of areas. External assistance amounted to \$1.5 billion in 2006.⁶ About one third of this amount was technical assistance. While the financial amounts are small, about 2 percent of GDP, the impact of the assistance is multiplied by the effect of making necessary changes to help the country achieve its critical social and economic challenges.⁷

Table 1:

Technical Assistance Received in 2006

Donor	Amount (\$'s millions)
USA	124.98
Canada	18.00
Germany	4.05
Netherlands	3.24
Great Britain	7.92
Japan	0.38
Korea	0.34
China	0.00
Switzerland	4.43
Sweden	16.00
Denmark	0.00
Italy	0.41
Turkey	0.40
EU	207.09
EBRD	100.00
UN system agencies	30.00
IBRD	4.00
TOTAL:	521.24

Source: DCITA

The Ministry of Economy's (MoE's) Directorate for the Coordination of International Technical Assistance (DCITA) officially requested the United Nations Resident Coordinators Office (UN RCO) for technical assistance to help assess the Government's aid coordination capacity. Capacity is defined as the ability of individuals, institutions and societies to perform functions, solve problems, and set and achieve objectives in a sustainable manner. Capacity development is thus the process through which the abilities to do so are obtained, strengthened, adapted and maintained over time.⁸

The UN, with the support of the United Kingdom's Department for International Development and the Canadian International Development Agency, initiated this assessment to help the Government identify and initially respond to the capacity development issues and constraints, and identify future opportunities in accord with Ukraine's interests as well as the commitments made upon signing the Paris Declaration on Aid Effectiveness. As a first step, a capacity development questionnaire was completed by Government stakeholders. The second step consisted of a field visit of specialists. The assessment looks at the following:

- The importance of external assistance to Ukraine's development,
- The Government's capacity for utilizing external assistance and the strategies needed to facilitate attracting and effectively utilizing funds,
- Public financial management improvement needs by looking at the overall public financial management system, procurement and the ability to apply Sector Wide Approaches (SWAs) and direct budget support,
- The architectural structure for aid coordination with an emphasis on the Ministry of Economy's current structure and potentially improved capacity in the future, and
- Donor readiness for cooperation to show donor responsibilities to help improve the aid coordination and management capacity in line with Paris Declaration commitments.

5 For the purpose of the assessment, aid or external assistance is defined as humanitarian assistance, technical assistance, grants, credits, loans and financial budgetary support provided by an external donor.

6 Source: Department for the Coordination of International Technical Cooperation (DCITA), Ministry of Economy.

7 Source: ODA Snapshot for Ukraine prepared by UN RCO based on data from OECD/DAC and World Bank websites. Background Paper on Capacity Assessment for Aid Coordination and Management in Ukraine

8 UNDP Capacity Development Practice Note, July 2006, p. 3.

The purpose of the assessment is to provide guidance and options, mainly to the Government, to help improve its aid coordination system within the context of two main drivers for development and international integration:

- The European relationship and how this evolving relationship will help Ukraine develop international standards and integrate within its regional context; and
- Paris Declaration commitments to improve aid effectiveness, specifically, ownership, alignment, harmonization, and mutual accountability components in a more results-based manner.

The team was comprised of independent specialists with the support and contributions of the Government, UN RCO and the United Nations Development Programme's (UNDP's) Bureau for Development Policy, Capacity Development Group. The team met with representatives of the Government involved in the aid coordination system, a group meeting of line ministries involved with the Donor Government Working Groups (DGWGs), and major donor representatives. The team used the in-country context as a base as well as reaching into the experience of other countries, including those with European integration experience in the region and those who have advanced to meet Paris Declaration commitments. Initial findings and recommendations were presented at a Government and donor round table meeting on 6 May 2007.

External Assistance in Ukraine's Social and Economic Context

Importance of External Assistance to Ukraine's Development

Ukraine's economic growth is fueled by a strong resource base and internal market. While external assistance is of limited budgetary importance, it has the potential to transform and boost the efficiency of state administration and the quality of public service to provide improved public services and facilitate private sector led economic development. External assistance is instrumental to Ukraine's continuing economic success and social and political stability.

Fifteen years after independence, Ukraine's government apparatus is still saddled with the command and control mode characteristic of Soviet-style planned economies. The country's administrative structures boast more than adequate staff levels and a high degree of specialization but are ultimately unable to meet the requirements of a modern economy. Capacities to efficiently plan and deliver public services are low: policy and planning skills and results-based management and accountability systems are in short supply. The commitment to modernize public administration is not as strong and sustained as needed for Government to become a driver of European integration and achieve economic growth and social development.

To boost administrative performance and bring public services up to international standards, Ukraine needs international expertise and access to global knowledge and ideas, in particular, with regard to modern development management in all economic sectors. This includes knowledge on how to effectively manage this external assistance through results-based approaches. Significantly, strategically directed and well implemented external assistance is proven to be instrumental to overcome institutional paralysis and reenergize stalled public sector reforms. External assistance is also available to assist Ukraine's integration into the world economy and international community through the system of international treaties and conventions. Therefore, external assistance will remain a valuable development resource to the country for some time to come.

This peculiar situation explains in part why, in spite of a growing economy and revenues, official development aid is on the rise. The bulk of the country's ODA (totalling about \$6 billion since independence) has come in the form of technical assistance.⁹ The rest were loans by International Financial Institutions aimed at improving the country's infrastructure (ports, railways, airlines, utilities, etc.). Technical assistance has been less effective when insufficient attention was paid to the transmission of know-how to Ukrainians. Financial assistance at times overestimated its ability to induce reforms.

Ukraine's aid landscape is changing: while emerging donors from Eastern Europe are starting operations in the country, traditional donors reorient their cooperation with Ukraine. Great Britain, for example, will close its development operations by DFID and pursue its economic cooperation programme through other channels. Other major donors are similarly contemplating the future of their coope-

ration with Ukraine. The EU's joint programme of assistance through the European Commission (EC) is being reoriented towards budgetary support and sector-wide approaches. At the same time, Ukraine is preparing to become an aid donor to other countries and use its assistance to develop its export potential by opening up new markets and to foster its foreign economic relations.

The sharp increase in private capital inflows over the past few years is a sign of the changing dynamics in the country's development. The private sector is the principal engine of Ukraine's positive economic performance. This has helped the development and consolidation of Ukraine's market economy. The impact of this growth on reforming the state is mixed. On the one hand, private businesses have been pressing for more efficient and transparent Government. On the other hand, private sector interests have increasingly migrated into the political system and are now closely interwoven with the latter. Systemic conflicts of interests have corrupted the exercise of government and undermined public service. The 'orange revolution' notwithstanding, civil society and the media have not been able to provide effective checks on the administrative system and redress the balance of the political system in favor of the people of Ukraine.

Value-added of External Assistance

Despite the country's complex political environment, there is a certain consensus with regard to Ukraine's general direction: the overarching goal of European integration. The latter is not so much about the country's accession to the European Union (EU) but rather about emulating European social, economic and democratic standards for the activities of the individual, the society, and the state with a view to improving people's quality of life, and hence Ukraine's integration into the world economy.

To realize this goal within the shortest possible time, Ukraine's resources, both foreign and domestic, need to be sharply directed, managed and coordinated. Since the state system's capacities to manage and coordinate aid are not fully developed, external assistance needs to be focused on establishing or upgrading those very capacities that are needed to effectively pilot aid. This poses a dilemma and makes it essential to pursue an astute approach to aid management and coordination. The challenge to achieve

enhanced aid effectiveness is to find the critical entry points for building the underlying system's capacities.

Both Government and external assistance partners are concerned. Government needs to boost its capacities to utilize external assistance. External assistance partners have to adjust their contributions to national needs and systems. The interface for matching demand and supply of external aid resources needs to be carefully tuned to the overall aid environment as outlined in the chapters of this assessment. The Paris Declaration establishes the general path towards greater aid effectiveness. Its implementation is very much intertwined with Ukraine's state reform requirements identified by the Sigma governance assessment of March 2006.¹⁰ In accordance with the report's findings, some parameters of reform in the context of adding value to external assistance include:

General

- Increasing public sector administrative performance; Abandoning command and control style of management in favor of more results-driven management style focusing on the services to the Ukrainian people;
- Boosting capacities to efficiently plan and deliver public services by upgrading policy and planning skills and introducing results-based management and accountability systems; and
- Channeling private sector interests in the policy arena through appropriate arrangements and open up policy-making system to other stakeholders (businesses, civil society).

To Strengthen External Assistance

- A strong and sustained commitment from the national authorities to improved aid management and coordination,
- International expertise is used effectively to acquire strategic program management knowledge with results-based approaches,
- External assistance is directed to strategic requirements and to critical reform programs,
- The new external assistance environment, including budget and sector-wide support, and the integration of new partners, are properly taken into account, and
- Proper entry points for external assistance are identified based on other country experience and the constraints and opportunities as identified for the Ukrainian state system.

Part II.

Situation Analysis, Findings and Recommendations

Government's Capacity to Utilize External Assistance

Overview

Improving Government's capacity to utilize external assistance is a major challenge. At the policy level, capacity to define national, sector and regional priorities is limited by the absence of adequate decision-making frameworks, strategies and knowledge resources. The same challenge hinders the process to determine aid priorities. Capacity on the implementation side is hampered by the lack of results-based management systems and know-how. These main areas -- the presence of strategies and the capacities to formulate such strategies and a results-based policy and strategy management system -- are reviewed below.

Capacity to Define Priorities and Strategies at National, Sector and Regional Levels

National Priorities, Strategies and Programmes

Ukraine does not have a unified framework for prioritizing development activities. National strategic directions originate from multiple centers of policy development. They are expressed in a number of core policy statements, including: the annual presidential address to Parliament, the Government Action Program and the Program of Economic and Social Development prepared by Ministry of Economy. These statements do not converge on all issues and together provide only a rather general direction for overall

policy development. Competing and sometimes conflicting policy making authority and lack of coordination amongst the highest executive bodies of state policy are largely responsible for this situation.¹¹

Ministries reflect these orientations when developing their sector plans and activities, albeit without being actually bound by them and hence accountable to them. There is no single framework or process to ensure policy coherence. As a result policy development at the line ministry level is somewhat ad-hoc and implementation of the national policy orientation is not guaranteed. Policy coordination between ministries appears superficial and formal. It is based on drafting and commenting on legal orders and instructions, not on analysis, discussion and resolution of substantive policy issues. The Cabinet of Ministers, which would be an appropriate forum for policy dialogue and coordination, makes many decisions. Without adequate proper discussion of policy issues and options, those decisions do not add up to a coherent policy framework. The administration continues to operate within a command and control culture discouraging individual initiative and responsibility.

Policy analysis and design capacities are inadequate at all levels of the administration and constitute a major challenge to improving Government performance and its ability to exercise enhanced leadership in the development process. Yet, several donor-assisted initiatives are on the way to install policy analysis capacities in core ministries.¹² Today, the need for enhanced performance in this area seems to be better understood, but the long march towards fundamental reform of Government administration has only just begun. Ukraine's legal and administrative framework should be in the midst of this complex transition.

Limited capacity to develop coherent policy priorities and plans limits the country's ability to make effective use of its development resources, both internal and external. Effective integration of donor assistance with the Government's development program requires greater transparency and

11 This comment is based on the Ukraine Governance Assessment, SIGMA Report findings, March 2006.

12 Currently a pilot project to establish policy units in selected line ministries is being supported by the Canadian International Development Agency: Network of Policy Analysis Groups.

consistency in defining national priorities which are best achieved through national strategies linked to the budget process.

Sector and Regional Strategy Capacities

Strategies at the level of line ministries and regional authorities do not usually derive from a structured policy analysis and prioritization process. Oftentimes they end up being little more than reproductions of legal orders passed down from cabinet level. The development of sector and regional strategic capacities is thwarted by uncertainty pertaining to national policy guidance and orientation, a deeply entrenched administrative command culture, and limited capacities for policy analysis and development.

Only a handful of ministries, such as the Ministry of Energy and the Ministry of Transportation, boast good strategies with identified priorities and even the quality of these strategies are questionable. A similar picture emerges at the regional/oblast level. In most instances, successful strategy development is assisted by Ukraine's development partners. It is these strategies that manage to align donor technical assistance built around the priorities of the ministry or regional/oblast level.

More commonly, requests for external assistance are little more than "shopping" lists of possible interventions rather than well thought through plans to make the best use of aid resources. As a result, assistance is oftentimes determined by donor preferences for sectors and interventions. Many donors deal directly with line ministry departments when it comes to the implementation of activities. Government's aid implementation has been largely on a donor-by-donor basis.

Due to the underdeveloped policy prioritization capacities and the difficulty of reforming central bureaucracy, a rising number of donors have resorted to working on a more decentralized level, including more at the regional or oblast level, to bring their assistance more closely to the ultimate beneficiaries. While useful, this way of programming aid yields a rather piecemeal and ineffective approach to building national capacity for reform as complementarity and synergies in policy implementation are not systematically exploited.

As part of the broader state reform effort with immediate relevance to aid effectiveness, Government must streamline high-level policy making authority between

President, Parliament and Cabinet of Ministers; redistribute policy implementation responsibilities from the Secretariat of the Cabinet of Ministers to the sector ministries; and modernize the state administration system by instilling individual responsibility and accountability, adopting a results/service orientation and expanding policy analysis capacities. The goal is to raise Government's capacity to define and implement national priorities and programs. Specifically, it is recommended:

Short-Term

1. The Paris Declaration gives the reform agenda a new impetus, which could be further reinforced by a joint donor-government structure for piloting the implementation of the Paris Declaration. It should be endowed with a stand-by facility for identifying and addressing opportunities to advance the reform process. A priority area should be the strengthening of the strategy and policy formulation, management and coordination process. The structure should also be tasked with monitoring progress on the commitments in the Paris Declaration. Concentrating external assistance resources on critical reform areas is likely to improve their reform impact and contribute to reform progress.
2. Create an inter-ministerial Government steering committee to manage the implementation of Government efforts towards meeting its Paris Declaration commitments.

External Assistance Coordination Strategy Capacities

The current institutional setup for policy-level strategic aid coordination is not optimal and needs to be revisited, as illustrated in Section 3. Inasmuch as the elaboration of the external assistance strategy involves defining national priorities and making national policy choices as part of overall national strategy formulation, it requires operational leadership at a higher level than is presently the case. Roles, responsibilities and relationships among the main actors have to be realigned. This concerns the Secretariat of the Cabinet of Ministers, the Ministry of Economy (MoE), and also line ministries and regional authorities. This institutional realignment needs to understand and respect the comparative advantages and competencies of the various agencies as far as their specialized knowledge, decisions and incentives are concerned.

External assistance is exposed to the strategy deficit at national, sector and regional levels. The Strategy for Attracting International Technical Assistance 2005-07 (Resolution No. 829 of August 30, 2005) does not fill the need. Designed to promote the consolidation of efforts of the donors and orient them with regard to priority areas and goals, the document defines the primary goal for external assistance, i.e., raising Ukrainian living standards up to European standards through a socially-oriented economic model; it also outlines core problems and areas that require assistance. This does not add up to a full-fledged strategy.

The document fails to describe how particular programmatic interventions addressing the listed priority areas are to be determined, the nature of support, and most importantly, the prioritization between those areas and within in terms of budgetary allocation and type of intervention. Nor does it outline the processes and procedures by which aid of different donors is to be harmonized. The value as a strategic prioritization document is lost since most of these details are absent.

The document shows that the very process of, and hence Government capacity for, aid prioritization lacks the necessary rigor and transparency. As previously mentioned, line ministries produce lists of possible interventions for external assistance that may be desired and/or discussed with donors. The MoE as the state institution responsible for policy implementation compiles the lists from ministries and aggregates them into a draft strategy. The document is subsequently submitted to the Secretariat of the Council of Ministers for review and comments. The strategy document then goes back to the MoE who is responsible for leading further discussions with line ministries to arrive at an agreement on a strategy that is ready for Cabinet approval. The process that results is procedural fitting state administration routines. It lacks any connection to budgetary resources, a strategy framework and does not take fully into account donor interests, capacities and modalities.

The Strategy for Attracting International Technical Assistance needs to evolve into a proper strategic planning tool weighing needs and opportunities for aid prioritization and resource allocation. The new instrument needs to incorporate more transparent decision processes within a true competency and accountability structure. It also must be linked to national budget and expenditure frameworks and in line with donor interests, capacities and modalities. The external assistance strategy should be a subsection of the national

strategy applying the principles of Ukraine's external assistance policy with clear targets, indicators and measurement tools. Specifically, it is recommended:

Short-Term

3. The Government should formulate a coherent external aid policy framework describing the goals, modalities, priorities and processes of external assistance. The framework would consist of 1) an *External Assistance Assessment*; and 2) a revised *Strategy for Attracting International Technical Assistance*. The Assessment would review the external assistance received in the more recent past and attempt to identify the results and impacts of such assistance at a macro and sector levels, including lessons learned. The assessment would concentrate on identifying a future direction for external assistance, gaps where assistance is needed, and comparative advantages of possible donors given possible new delivery modalities. The *Strategy for Attracting International Technical Assistance* would follow the Assessment and be formulated, in coordination with donors and the DGWGs, to identify priority investment areas linked with realistic medium term domestic and external budget resources as well as modalities in line with a pronounced government strategy.

External Assistance Management Capacities and Results Orientation

Beyond the problems in terms of policies and prioritization, Ukraine's capacity to utilize aid is also constrained at the implementation level as management structures are not results-oriented. Targets, indicators, monitoring, evaluation, and reporting are not systematized and not consistently used in the management of policies, programs and projects. The administrative culture is one of orders and compliance and is largely incompatible with a strong results focus, around which individual competencies and accountability are structured.

Results-based aid management systems in use are those introduced by external assistance partners to implement their own results frameworks and accountability requirements towards their home offices and parliaments. These systems are not aligned to the way Government manages its own resources and are therefore not ideally suited to ensure that Government and donor resources are properly matched.

Their particular value is in demonstrating to Government the validity of results-based approaches. Still, external assistance is not utilized to its full potential because it lacks country-owned results-based management approaches and systems.

Thus, implementing the Paris Declaration will be a challenge as it requires the Government change its organizational culture and operating styles by introducing modern public administration management practices. Results-based management (targets, indicators, appraisals, assessments, substantive monitoring and reporting tools) need to be progressively introduced at all policy development stages and program implementation. Commensurate capacities for results-based management are required. Specifically, it is recommended:

Medium-Term

4. Develop and adopt a common methodology for results-based management within Ukraine's state administration. Roll-out results-based management system throughout the state apparatus (medium to long term).

Public Financial Management (PFM) and Procurement

Overview

The Paris Declaration commits donors and partner countries to accelerate progress to define and implement performance and accountability standards of public financial management, procurement, and fiduciary safeguards in line with broadly accepted good practices. These commitments are expected to enhance aid amounts and aid effectiveness.

The Paris Declaration commitments are reciprocal. The Government is expected to take the leadership in the PFM and procurement reform processes. In the leadership capacity, Ukraine will foster growth by promoting public and private investments, working towards fiscal sustainability,

and establishing a transparent budgeting process. Donors will rely on the country leadership and use transparent budgeting and accounting systems that Ukraine adopts, and help finance Ukrainian medium-term fiscal management by reliable and timely aid disbursements. The convergence of public procurement standards and processes will also be mutually agreed on and be reciprocal. Ukraine will adopt internationally accepted practices and donors will rely on the national processes as these practices become institutionalized.

External assistance is currently an imprecise instrument to measure Ukraine's bilateral relationships and integration with regional and global economic systems. This instrument is used in an atmosphere of domestic political ambivalence about the specific national strategy direction and the pace of integration. Most dominantly, in the absence of a concrete EU integration timeframe, Ukraine finds aid incentives too modest to undertake broad initiatives to integrate into EU governance systems rapidly. Concepts such as the European Neighborhood Partnership Initiative and Deep Free Trade are remote for Ukraine to approach in a comprehensive and concrete manner. In addition, the demands of new aid modalities such as sector-wide approaches and budget support are anticipated yet are too early to be embraced. There is the possibility of reducing transaction costs with new aid modalities, which will help to boost economic growth rates to improve conditions. But, even though there has been much technical progress, the precondition of effective PFM for new aid delivery modalities is not in place to benefit appreciably from reducing transaction costs in the very near future. In fact, at the initial implementation phases, transaction costs may temporarily increase.

Aid flow information is incomplete. Donors do not routinely provide financial information to Ukraine for budgeting and reporting of aid. Most donors do not provide budget estimates for disbursements and report actual disbursement in a timely manner. Some of the donor financed activities are outside the Government's PFM system. Technical assistance and in-kind assistance are not shown in the budget and budget execution reports.

Public Financial Management in Ukraine

The Government's PFM status is fairly well-known.

The budgetary and treasury system reforms have been implemented for many years with growing relative success. These positive changes have been recorded in detail in recent reviews and assessments.¹³ However, these reviews also attest to the shortcomings that require Government leadership and ownership.

The general government budget of Ukraine is comprised of the consolidated budget and four extra-budgetary funds. The consolidated budget is divided into state and local budgets. Each of these is further divided into general fund and special fund. The special fund budget is primarily devoted to capital expenditures where some donor aid flows through. Local budget funding represents 30 percent of government expenditure and is important for the health and education sectors. Quantitative macroeconomic forecasts are not the basis for budget formulation. Capital budgeting is not an economic policy instrument. It is notable that public investment projects do not show a strategy towards economic growth promoting activities. Even the energy sector which needs attention in the near term does not receive any special attention. It appears that external borrowing or aid receipts occur in the absence of robust economic policy.

Budget review and formulation by the legislature cover fiscal policies and aggregates, and detailed estimates of revenue and expenditure for the coming year. Clear rules for budget amendments exist and are followed. Central government finances are fairly comprehensive and transparent. Quasi-fiscal activity estimates are not available in budget documentation. Budget classification generally follows the government financial statistics standards. Extra-budgetary fund operations are reported though the Pension Fund remains outside the Treasury single account. The monitoring, reporting, and oversight of the operations of state-owned enterprises are fairly lax. Budget execution results are uneven due to the lack of overall oversight responsibility, poor coordination of processes across organizations, and differing levels of modernization in the organizations and processes.

The Treasury's reporting quality is high on a routine basis but the Accounting Chamber of Ukraine (ACU) had noted some inappropriate recordings of spending. ACU, which is the supreme external audit institution, conducts mostly compliance oriented audits and does not provide any attestation of Government financial statements. The legislature does not follow-up ACU recommendations.

In general, PFM roles and responsibilities are defined and as-

signed. However, some tasks and functions are fragmented among several agencies. Coordination across agencies is weak. For example, the MoE is tasked to do multi-year economic and social planning. But this is not fully implemented and it is not used in the budget process by the Ministry of Finance (MoF). The relative importance of some agencies is not settled as some PFM functions are still changing.¹⁴ Some changes have consolidated PFM functions properly. Most notably, since 2005, Treasury has been subordinated to the MoF and the Minister of Finance gained authority over the State Tax Administration, Customs Agency, and Department of Control and Revision (KRU). Yet, institutional jostling continues to the detriment of more rapid progress in PFM.

Across the governmental agencies, many assigned PFM tasks are not developed and adequate capacities are lacking. This is especially true of line ministries. Line ministry tasks include strategic and multi-year planning, budget formulation, capital project preparation and management, budget management, procurement, asset management, state-owned enterprise oversight, and internal inspections and controls. Across all these tasks, line ministry capacities need close attention for reliable PFM to take place.

In the changing aid modality environment, dependable capacities for these tasks are basic requirements. The Government and donors have technical assistance in close cooperation in many of these areas. CIDA and DfID are involved in national and regional strategic planning. SIDA is working with KRU on training and legislation. USAID is helping to increase local government capacity in performance budgeting. The EU has programs in internal financial control and on competitive procurement. The U.S. Treasury Department is working with the MoF on fiscal analysis and modeling, and budget preparation.

For the near-term, the most promising development in the implementation of Paris Declaration commitments is the leadership role the government has taken in the broad PFM reform strategy under the technical guidance of the MoF, Treasury and KRU and in very close coordination with the World Bank. The planned PFM Modernization Project will attend to a range of technical elements which will give a fully integrated and transparent PFM system in Ukraine. According to the needs identified by the MoF, Treasury and KRU, the project will upgrade and integrate macroeconomic forecasting and strategic budget planning, develop and implement performance budgeting system, adopt a

13 Ukraine: Public Financial Management Performance Report 2006, World Bank, March 15, 2007; Ukraine, Creating Fiscal Space for Growth: A Public Finance Review, September, 2006; Ukraine Governance Assessment, SIGMA, March 2006.

14 Recent amendments in the public procurement law imparted new authority to Tender Chamber of Ukraine and Accounting Chamber.

medium-term expenditure framework, reformulate inter-governmental finances, improve local/rayon budgeting, provide more transparent financial reporting, and improve debt management, public procurement management, and internal financial control.

On the PFM issues, especially in technical areas, donors and the Government worked closely together over the years and found common purposes and successful working methods. The donors and government have found it productive to deal with issues through dedicated liaisons who attend to tasks in a timely manner. The working relationships are more day-to-day and specific than the DGWG fora. Even then, some donors still provide assistance where they have comparative advantage and domestic commercial and political constituency interests. But most donor efforts in this area, by subordinating their specific aid task to a lead donor and transferring to the Government as much as possible the responsibility to drive the reform process, yielded a good level of coordination and confident Government ownership.

Much of the Paris Declaration commitments for increased use of country procurement and PFM systems will occur in tandem with the installation processes of a modern PFM system in Ukraine. Without a well-intentioned and integrated PFM, the use of country systems in the disbursement of external aid will remain as pilot projects and will be accompanied by conditionalities for donors and government. However, understanding the highly detailed needs and addressing them in continuous dialogues offer the way to resolve aid effectiveness within the improving PFM system.

Recommendations regarding PFM system development and ownership include:

Short-Term

1. Government commits to take the lead on proposing PFM reforms, implementation, and management. Government continues to lead innovatively in implementing the PFM Modernization Project Action Plan.

Medium-Term

2. DCITA keeps a PFM thematic group abreast of all new aid programs/projects with a view to maintain PFM policy consistency and non-duplication of activities (need close communication with MOF, Treasury, KRU, and World Bank).

3. Government assigns dedicated liaisons with high-level access to thematic group areas to coordinate with donors' dedicated liaisons (in conjunction with the operations of DGWG).
4. Government prepares for medium-term and performance budgeting (sector plans with indicators, targets, and monitoring and evaluation mechanisms).
5. Government bases policies on realistic macroeconomic assessment of resource constraints and consistent allocations (macrofiscal modeling, public investment budgeting for growth).

Long-Term

6. Government makes medium-term expenditure framework a part of budget formulation.

Procurement

The Paris Declaration promotes increasing use of country procurement systems for external assistance. Currently, the public procurement law and public procurement practices of Ukraine are in breach of internationally accepted procurement norms.¹⁵ The potential use of the country system by the donors is extremely limited at this time.

Ukraine had adopted a comprehensive Public Procurement Law in February 2000. Over the following years, even though much remained to be modified for acceptable international practice, implementation of the law moved Ukraine towards increased compatibility with international best practices, increased institutional capacity, and reduced corruption. By 2005, Ukraine conducted public procurement for \$4 billion in this institutional environment.

Since late 2004, a series of amendments to the procurement legislation stifled further expected alignment of functionality in public procurement. Amendments adopted in November 2004, June 2005, and November 2005 seriously fragmented and undermined Government procurement authority. The November 2004 amendment removed the important functions and responsibility from the MoE's Department of Coordination of State Procurement, which was the authorized procurement agency. The agency provided methodological advice and standard bidding documents. The amendment in June 2005 transferred functions normally exercised by the state to the Tender Chamber of Ukraine, an NGO that is not subject to the controls routinely imposed

¹⁵ This section borrows from the findings of the previously referenced SIGMA report and the upcoming draft: *Ukraine: Country Procurement Assessment Report of the World Bank*.

on bodies and individuals responsible for public administration. The amendments in December 2005 set new rules on the organization's oversight and control of public procurement, which further fragmented the Government authority over public procurement. The public procurement functions are now distributed among the Tender Chamber, the Special Control Commission under the Accounting Chamber, and the Antimonopoly Committee (under Parliament). At the same time, the Cabinet of Ministers, the Treasury, the State Statistics Committee, the Ministry of Agrarian Policy and law enforcement authorities supervise public procurement.

Currently, several private organizations dominate public procurement. The domain of public procurement is incompatible with allocation of a fundamental government function to a private sector entity which is not accountable to the public. The Tender Chamber as the new nominal authorized agency has a conflict of interest between its private and public roles. The Accounting Chamber has a conflict of interest between its budget execution and supreme audit roles. Parliament's direct role over Antimonopoly Committee violates constitutional separation of powers. On the practical side, procuring entities are not able to implement the public procurement law effectively. There appear unsubstantiated restrictive procedures and discretionary limitations on which entities can participate in tenders. The information, advice, and bidding forms which would normally be free public services now come at a cost. The institutional capacity which was accumulating at the Department of Coordination of State Procurement has dissipated.

For now, measured procurement performance indicators fall short of minimum acceptable international standards. The number of advertisements of bids and publication of awards, which indicate the degree of transparency, is low. Time for bid preparation is shorter than a reasonable length of time. The number of bidders, which would indicate the level of confidence by the private sector in the procurement process, is low. In contrast, the ratio of direct contracting is quite high for standards of strict competition and transparency. There are absences of: recorded protests where a reasonable number would indicate improved process quality; published results of any protests; provisions that restrict competition for consultants which would indicate higher quality of advice. The procurement authorities do not have an information base to evaluate whether competitive procurement methods are used. The cumulative impression of these practices is the collapse of confidence by the private sector and donors in the integrity of the public procurement process.

World Trade Organization (WTO) accession and EU integration are at risk because of the current public procurement environment. The implementation of the new aid modalities being considered will be more complicated. The modernization of the PFM system will also be hampered by a severely lagging component. As an immediate remedy, the recent amendments to the procurement law should be rescinded. In addition, the public procurement law needs further alignment with EU and WTO standards. The domestic content requirements, the inclusion of all state-owned enterprises, and the inclusion of state-owned, non-corporate communal enterprises and businesses in the scope of public procurement law should be reconsidered. In this exercise, successful practices undertaken by Poland, Hungary and Slovakia would be instructive.

Short-Term

1. Government rescinds the recent amendments to procurement law. The authorized agency becomes a public entity. Antimonopoly Chamber (under the Parliament) devolves all responsibility for public procurement.
2. A public procurement information base is prepared. Government and donors conduct joint work on designing public procurement performance indicators and disseminate information to the public to bolster private sector and donor confidence in the procurement process.

Medium-Term

3. Government integrates public procurement with budget planning and execution.
4. Public procurement auditing responsibilities are made more clear and strict.
5. Public campaign to raise procurement awareness to the general public.
6. Government aligns public procurement with EU and international requirements (WTO).

Sector-Wide Approaches (SWAs)

According to Paris Declaration commitments, donors will implement common arrangements for planning, funding, disbursement, monitoring and reporting on donor activities and aid flows. Program-based aid modalities would facilitate this implementation. In the harmonization effort, sector-wide approaches and budget support are two aid modalities that donors and the Government may want to pursue.

A SWAp can be broadly characterized as having all significant development assistance being consistent with the sector strategy and the sector budget promoted by the country.¹⁶ A precondition for a SWAp is a clear sector strategy with country ownership. The clear sector strategies are missing in Ukraine with minor exceptions.

A SWAp cannot be successful without the capacity and willingness of the Government to implement sector programs, as indicated previously in this assessment. The sector program focus of SWAps will sever the nominal connection between the project implementers and the donor that exists under a project-based aid use. The new connection from the project implementer will flow back to the sector/government, which will establish a more meaningful policy and accountability connection with the donor. At the same time, the strong accountability relationship between the Government and the program beneficiaries will become a precondition. For the donors as well, their accountability to their public for the use of aid becomes redefined. Therefore, maintaining credibility towards respective domestic constituencies becomes crucial. Trust and real dialogue between the donors and government and among the donors are keys for SWAp modality. This makes SWAps a long term modality. Please see Table 2 on this page.

The basic criteria for SWAp arrangements – national, sector and regional strategic plans – are lacking in Ukraine. The essential nature of decentralized social and political infrastructure that girds broad approaches to development also bodes not well for Ukrainian SWAp initiatives in the short-term. Two potential sectors which can benefit from SWAp arrangements are health and environment. But these two sectors are constrained by limited human capacity and incentives. The issue of HIV/AIDS would find much support from the donors if there were more leadership from the Government. There are no accountability links between the Government and the recipients of assistance on this health issue. Given the lack of strong leadership, donors are becoming alarmed and are trying to establish quasi-SWAps to benefit from coordination among themselves and from economies of scale. But sustainability (for example, in service delivery) of these efforts is suspect even in the medium-term.

In the overarching environment, SWAps rely on public participation in their implementation. SWAps demand conditions which will impact the governance structure. These are difficult adjustments that the Government may not undertake easily:

- Only under a shared agenda can the Government lead in specifying priority areas in which donors should coordinate, and the types of outcome desired;
- SWAps should not be driven solely by a ministry-led plan, but draw in perspectives from a wide cross-section of people and agencies;
- Responsibility and funds for implementation are devolved to lower levels of government. Local-level participatory processes permit insight into how intended procedures actually work at the local level, and so are potentially valuable in helping to design more robust SWAps;
- Private agencies should engage in the design, implementation and monitoring aspects of the SWAp; citizens' organizations have a particular role in enhancing accountability; and
- Government and donors must set indicators against to assess SWAp performance.

Table 2:

Potential Advantages and Disadvantages of SWAps¹⁷

Advantages	Disadvantages
Donors	
If Government leads by having a coherent strategy then the supportive policy environment would yield sustained benefits to the satisfaction of donors.	A donor would need to convince their constituents about their direct impact on aid effectiveness with respect to other donors.
Donors would have better confidence to achieve targeted impacts (reduced fungibility).	If Government made decisions without donor consultation, donors would risk association with unsupported decisions.
Aid benefits would be broader with more influence on policy across the sector;	There would be less scope for management of projects.
	For some time at least a degree of inevitable compromise on best practices.
	Alignment of donor procedures to GOU standards.
Government	
With Government leadership, aid resources support government strategies (if strategies are present).	Government must consult despite its leadership role.
Elimination of parallel duplicating procedures which may lower transaction costs.	Uncertainty in outcomes in negotiations with donors.
Building of capacity.	Donor resistance or lags in aligning with Government procedures or interests.
Predictable and multi-year donor commitments with less ear-marking.	

The introduction of SWAps in Ukraine demands institutions that are at early development stages. At the same time, the obligations that the donors must assume under SWAps are not negligible and would require candid commitments. Donors themselves need to commit to coordinated

16 Sector Wide Approaches, Accountability and CIDA. M. Schacter, Institute on Governance, Canada. January 2001.

17 Table is based on an in-house Asian Development Bank presentation (January 2004) and can be found at: <http://www.adb.org/Educatorn/documens/loxley-swap.pdf>.

policies and programmes, and to view sector analyses and strategy definition as a common exercise for all in which they participate merely as one group of stakeholders. For the Government the immediate demands would be to:

- Formulate national and sector strategies, preferably within the context of the DGWGs;
- Take the lead in implementing aid programs of the donors;
- Upgrade PFM components to a minimum standard according to donor consultations (performance budgeting, medium-term expenditure framework, public procurement fairness and transparency, reasonable outcome targets, monitorable indicators);
- Devolving authority to local government levels and public involvement; and
- Establish accountable relationships with program benefit recipients.

Given the need for intense coordination that subordinates individual agendas among the donors, SWAp implementation is a difficult process. Trust and real dialogue between the donors and Government and among the donors are keys for the SWAp modality. In the near and medium-term SWAps in Ukraine will be learning experiences. Recommendations include:

Short-Term

1. Government and donors prepare an Issues Paper to describe and decide very specifically what has to be designed for sector-wide approaches to become a workable modality.

Medium-Term

2. Government imbeds a SWAp in a well-formulated sector and/or national strategic plan.
3. Donors choose lead donors to move forward with the Government on selective SWAp ideas via one or more DGWGs.
4. Government improves local budgeting functions and civic participation; involves local governance and private sector in performance monitoring and evaluation; and uses decentralization and empowers civic groups to participate in SWAp initiatives.

Direct Budget Support (DBS)

Direct budget support is another means for donors to implement common PFM arrangements for aid flows that increases accountability and possibly lowers transaction costs. In Ukraine, donors are beginning to look at the potential benefits of using budget support as a mode of aid delivery. This is part of a global shift in external assistance disbursements as well as a response to the weaknesses in Ukraine of aid on a project basis. Budget support is a form of program aid in which aid will be channeled directly to Ukraine using Government allocation, procurement, and accounting systems. The means of disbursement will be based on Government procedures. The main focus of discussion in the use of DBS is increasing Ukrainian ownership.

Donors are tentatively moving to budget support as their trust in the public financial management system of Ukraine grows. However, the design of direct budget support will vary as bilateral donors address more the political context and as IFIs address more the financial context. Interestingly, the low dependence to external aid frees Ukraine from issues of unpredictability of aid disbursement. This independence may allow the DBS modality to take root in the relative absence of donor conditionalities that may otherwise bedevil the process. So, if sustained dialogue between donors and Government and very close coordination among the donors are upheld, conditionalities may fail to materialize and the opportunity for workable budget support may develop.

Establishment of a joint aid management structure based on sector themes (such as the DGWGs) and synchronizing the operations of the structure with the joint development of improved PFM system that has a real medium-term framework orientation would benefit the budget support purposes. In improving the PFM system, the priority must be given to the strengthening of financial reporting and accountability systems. The government service delivery necessarily improves through establishment of better PFM and monitoring and evaluation systems. The expectations of responsibility and accountability from the Government and the donors would be raised under DBS in a similar vein to SWAps. The introduction of DBS usually demands a minimum level of PFM operational conditions:

- Clear national and sector strategies under which Government actively leads aid activities;
- Responsibility and funds for implementation are devolved to lower levels of government;

- Improved coordination and deep harmonization among the donors;
- Alignment of donor financial management systems with PFM system (budget system, budget calendar, reporting system, and results systems);
- Improved accountability by focusing on the Government's accountability channels; and
- Greater predictability of funding by the donors where DBS becomes a part of disciplined macroeconomic management and budget execution.

The Government and donors should prepare a DBS Issues Paper to choose very specifically what has to be designed for direct budget support to become a workable modality. In this exercise, even the exact meaning of DBS for each donor must be defined. In the discussions, very explicitly, every question must be addressed candidly. Necessary steps for aligning PFM processes and different budget cycles should be detailed. The donors must describe the necessary intensity of coordination among themselves which would include agreements on simple, clear and harmonized donor conditionalities. Balanced sets of indicators to be used in joint assessments must be selected and designed. These indicators must be balanced so that the Government and donors share the burden of risks of conditionalities. If conditionality is policy-based then the burden of risk is more on the donors. If conditionality is result-based then the burden of risk is more on the Government. But above all, the Government and donors must enshrine in the Issues Paper unremitting dialogue to resolve all outstanding questions until all sides are satisfied.

Recently, a bilateral donor country, which used a simple financial support mechanism emulating DBS was disappointed in the slow approach to the otherwise routine transactions by the government agency. A second tranche may possibly not materialize. The reasons were not explicitly elaborated by the donor or Government. Currently, the largest and the most imminent direct budget support proposal is the EU initiative to the Ukrainian government in the energy sector. The EU intends to drive the DBS by ENPI. However, with the recent collapse of public procurement accountability standards, such an effort is more complicated than would have been otherwise. The EC must give further consideration for new criteria. Introduction of tighter conditionalities may be necessary. It is in this kind of circumstance that a detailed guide for the use of DBS modality would be useful.

DBS introduction is at a very early stage. The DBS obligations that donors must assume are not negligible and require candid commitments. These circumstances are similar to the difficulties that the SWAp introduction would experience. Recommendations include:

Short-Term

1. Government and donors prepare an Issues Paper to choose very specifically what has to be designed for DBS to become a workable modality (what steps to align in PFM processes and budget cycles, intensity of coordination between donors, simple clear harmonized donor conditionalities, joint choosing of balanced assessment indicators, sharing the burden of risks of conditionalities, commitment to unremitting dialogue).

Medium-Term

2. Modernize all the components of the PFM system (performance budgeting, medium-term expenditure framework, capital budgeting); synchronize operations.
3. DBS becomes a part of disciplined macroeconomic management and budget execution.
4. Improve local budgeting functions; involve local governance and private sector in performance monitoring and evaluation.

Architectural Structure for Aid Coordination

Overview

To be functional and successful, the aid coordination system depends on a solid institutional architecture capable of developing a strategic vision of the Government's objectives, preparing a national development strategy that will serve as a basis for a most needed policy dialogue with the donor community, and effectively coordinate both internal Government institutions and external donors. It depends on the Government to establish and empower appropriate institutions and set up the way in which those institutions function and interact together under the leadership of a

national coordinating authority. Activities such as the coordinated preparation and drafting of a national development strategy to include external assistance, regular meetings of line ministries for coordinated programming and implementation, and a computerized information system are among the most commonly implemented.

The Paris Declaration in its article 4.i requests donors to provide support to “address weaknesses in partner countries’ institutional capacities to develop and implement result-driven national development strategies”. The partner country is expected to establish the appropriate institutions and provide a stable regulatory framework. The donors are expected to help develop and use these capacities, frameworks and processes.

The role of the coordinating institutional architecture is twofold:

- **Donor coordination** and dialogue with the donor community through various channels and activities; and
- **Internal coordination** of the different administrative units involved in the aid coordination process and in the dialogue with the donors, with an aim to maximize the external assistance and effectiveness in the overall framework of the Government’s strategy.

Several units are generally involved in the process of aid coordination and management. These include a central coordinating authority with a clear mandate from the Government to lead the preparation of a national development strategy for external assistance and conduct the policy dialogue with the donors. Implementing units are also required in the line ministries. The MoF has financial planning, management and monitoring roles. The respective role of these institutions encompasses a number of responsibilities. Particular attention needs to be paid to the relationship and interactions among them in the various stages of external assistance planning and implementation.

The present section reviews Ukraine’s existing aid coordination institutional set up, and proposes some comparative examples of institutional architecture that are common practice as indicated in Attachment A. For ease of reference, the comparative examples have been selected among neighbouring Central and Eastern European countries, be they EU new member states or candidate countries. The EU integration process is not taken as the only driving force of this exercise, but is assumed to be Ukraine’s key policy orientation. The recommendations aim at scaling up Ukraine’s present aid coordination institutional system in an open and transparent architecture to improve aid effectiveness.

Ukraine’s perspective to develop as a donor country can also benefit from a reinforced aid coordination capacity as coordination is also a prerequisite for successful outward development assistance.

Legal and Regulatory Framework

Ukraine has adopted several pieces of legislation and regulations directly related to aid coordination and to the relevant Government infrastructure. The most renowned and controversial one is Regulation 153 dated 10 February 2002. This regulation is not the only one governing the aid coordination institutional set up. Among others is Regulation 777 of May 26, 2007 on the Ministry of Economy of Ukraine. The former is a detailed administrative guide on the international technical assistance registration process while the latter outlines in broader and general terms the responsibilities of the MoE, including in the field of aid coordination, without referring to Regulation 153. Article 8 of the regulation of May 2007 specifically refers to MoE’s responsibility in coordination of “implementation of the state policy in the field of economic and technical cooperation with foreign states and international organizations”. Article 9 in its first paragraph focuses on the MoE’s responsibility “forming of strategic and annual programmes of attraction of international technical assistance according to the priority directions of Ukraine’s social and economic development”. Out of four paragraphs of the same article, three describe more administrative tasks (state registration of programmes and projects, examination of requests of domestic institutions for technical assistance, accreditation of foreign organizations). These tasks are already described at length in Regulation 153. A fourth paragraph of article 9 provides that MoE is responsible for coordination of realization of programmes and projects, for “monitoring the efficiency of their execution”.

Several donors insisted on the imprecise delineation of responsibilities of the three MoE Directorates and on the lack of an overall understanding of aid coordination in the current legal framework. The donor representatives met all insisted on the need to redraft at least Regulation 153 of February 2002 governing the use and monitoring of international technical assistance. Both donors and Government representatives do not adequately follow the mix of regulations and agree that the legal framework is cumbersome and tangled.

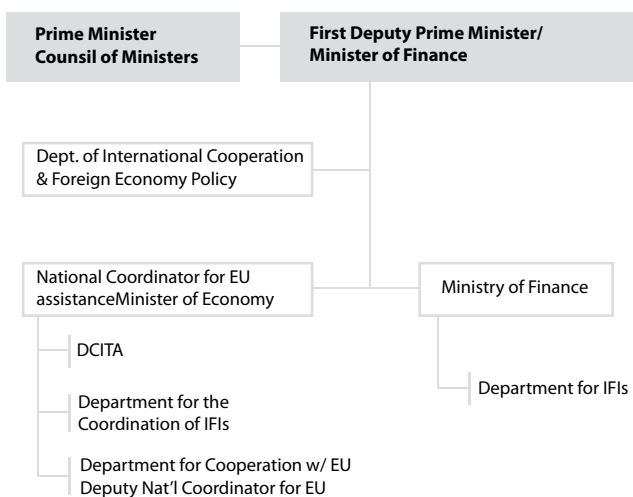
A redrafting of Regulation 153 is on-going.

Present Institutional Architecture in Ukraine

Current Structure

The aid coordination architecture encompasses several levels from the political to the more technical and administrative. At the top of the coordination structure is the Council of Ministers and the Prime Minister who have a very political and overall responsibility for state policy. The function of overall national aid coordinator is entrusted to the First Deputy Prime minister who happens to be the Minister of Finance. However, this mandate is, in turn delegated to the Minister of Economy who controls several departments having direct technical and/or administrative responsibility for the day-to-day coordination mechanism. The current institutional architecture can be summarized as follows:

Figure 1:
Current Aid Architecture



This institutional set up dates back to 2002 and succeeds a very different architecture whose main component was the Agency for Development and European Integration which was established in 1994. The head of the agency had the rank of a Minister and took part in Government deliberations. The Agency was responsible for the overall coordination of external assistance from all sources, be it technical or financial assistance. The different departments composing the Agency were coordinated thanks to the structure of the institution, and so were the different types and sources of the assistance.

The National Coordinator

At the upper political level, there seems to be a split of responsibilities between the First Deputy Prime Minister supported by the Department of International Cooperation and Foreign Economy Policy within the Cabinet of Ministers on the one hand, and the Minister of Economy supported by the three departments of the ministry responsible for coordination in their respective sector: general technical assistance, EU assistance, IFI assistance.

Within the former group, the Department of International Cooperation and Foreign Economy Policy plays a crucial role for the preparation of specific studies and of policy decisions for the First Deputy Prime Minister. Among other responsibilities, the Department coordinates the preparation of sector strategies that need to be approved by the Cabinet of Ministers, receives and screens the technical appraisal of loans from the IFIs conducted by the MoE's Department of Coordination of IFIs, and prepares substantiated opinions for final negotiations with the IFI concerned. The Department prepares decrees and orders for approval of the Cabinet and for signature by the First Deputy Prime Minister.

The concern of possible confusion, if not conflict among these institutions at the top of the aid coordination architecture has been raised by some donors who expressed a strong preference to have a single National Coordinator for all external assistance types and sources (bilateral, multilateral, EU) of assistance. These donors have insisted on the advantages of having a single coordinator authority at the highest level to facilitate preparation of Government's strategy documents (a national development strategy for example), provide a unique communication channel for all donors, and provide a better internal coordination of all Ukrainian institutions involved in aid coordination.

The alleged risk of confusion was dismissed by the Ukrainian representatives met, especially in the Cabinet of Ministers, who said that coordination was ensured at the highest political level of the Prime Minister and of the Council of Ministers. However, the political coordination does not reach the level of the directorates in the line ministries. Moreover, the overall coordination at the level of the First Deputy Prime Minister does not seem to have visibility to the donor community. Few, if any, of the donor representatives met have mentioned the existence of this upper echelon of overall coordination at the political level. The role of the Depart-

ment of International Cooperation and Foreign Economy Policy is also unknown by the donors, strange as it is for an institution that plays such key policy coordination part in the architecture, and that on this basis could be defined as the “coordinator of the coordinators”.

There is certainly a need for the Government to appoint a high level official of ministerial ranking within the Cabinet of Ministers that would officially and visibly become the National Coordinator responsible for overall external assistance and the focal point at the political level for advocating Ukraine’s assistance strategies, both inward and outward. As the key official in charge of the dialogue with the donor community, the National Coordinator should be responsible for coordination of Paris Declaration commitment implementation.

As Ukraine prepares to scale up its efforts as a donor to other countries, the National Coordinator’s responsibilities should include coordination of the outward assistance in its strategic aspects.

The Minister of Economy, National Aid Coordinator for EU Assistance

Since 2002, the Minister of Economy plays a particularly important role in Ukraine’s aid coordination set up as he is the National Coordinator for EU Assistance. The Minister is assisted in this function by the Head of MoE’s Directorate for Cooperation with the EU, who is the Deputy National Aid Coordinator.

The National Aid Coordinator for EU Assistance coordinates technical and financial/budgetary assistance provided by the EC. However, the two sorts of assistance are effectively coordinated by two different Directorates within the MoE: technical assistance by the above mentioned Directorate for Cooperation with the EU whereas the financial assistance is monitored and coordinated by the Directorate for Coordination of IFIs. The EC Delegation complains about this non-unified institutional arrangement and requests that financial assistance provided by the European Investment Bank (EIB) be processed by the Directorate for Cooperation with the EU as a part of the overall European assistance.

The Ministry of Economy

The Present Institutional Set Up

The present aid coordination institutional set up established in 2002 within the MoE is based on three different

Directorates that are supposed to complement each other: DCITA, the Directorate for Cooperation with the EU, and the Directorate for Coordination of IFIs. The three of them could form what is commonly called a National Coordinating Unit (NCU). But a lack of internal coordination among the three entities has been very often reported by the donors as well as observed by the team. The MoE has lost the “European integration” dimension in name, but the institution keeps coordinating the European assistance programmes.

DCITA has four major responsibilities: 1) support the formulation and implementation of the Government’s external assistance strategy; 2) ensure intergovernmental coordination for implementation and monitoring of all technical assistance projects; 3) coordinate the DGWGs; and 4) register all donor technical assistance activities.

Most if not all donors met have reported a limited involvement in the first three responsibilities and have insisted that most of DCITA’s activities concentrate on the administrative registration actions. Some 80 percent of DCITA’s staff time is spent on administrative duties in regard to the registration of aid projects, accreditation of foreign contractors, issuing of tax and exemptions, etc. In turn, it has very little time left to devote to essential support and monitoring with regard to the aid coordination system. This deprives the aid coordination system of the necessary facilitation and discipline that would enable it to progress and produce the system-wide coordination capacities required for greater aid effectiveness.

The Directorate for Cooperation with IFIs is responsible for the coordination, preparation and monitoring of all projects (loans) from the IFIs. The Directorate is also tasked with preparation of annual strategic programmes and action plans for Ukraine’s cooperation with IFIs. It also ensures intergovernmental coordination of activities linked with IFIs programmes.

The Directorate for Coordination of EU assistance has a wide range of responsibilities, including provision of substantive and organizational support to the Minister of Economy and to the Deputy Minister in their respective capacity as the Chair and Vice Chair of the EU-Ukraine Cooperation Council. The Directorate fulfils the functions of National Coordination Bureau for EU programmes and other instruments of support. The Directorate is responsible for monitoring all EU technical assistance projects and programmes. The Directorate deals with technical assistance but does not coordinate EC or EU financial assistance.

To fulfil its responsibilities, the Directorate for Coordination of EU assistance is supported by an EC funded technical assistance project comprising two long-term experts in aid coordination, as is very often the case in other CEE countries. There is no other long-term technical assistance project to assist the overall aid coordination mechanism.

Issues identified in the present institutional set up at the MoE

Timeframe of programme/project registration: Several donors have mentioned and criticized the long delays for processing and signing of legal texts such as MoUs: between 2 and 5 years. The administrative process is often described as extremely long and difficult.

Unclear role in project monitoring and reporting: The substantive involvement of DCITA is described as very limited to project registration and administration of the international technical assistance. Most donors regret the absence of direction, project monitoring reporting and information sharing at the coordination level.

Lack of coordination among the three coordinating MoE directorates: Information (on meetings of common interest for example) is not shared among the three directorates. There seems to be no internal coordination mechanisms among the three directorates as indicated by the directorate representatives and donors.

Loose coordination of line ministries in project implementation: There seems to be no clear information and coordination between the line ministries or recipient institutions, and the coordination entities. This has a negative impact on the preparation of strategy programmes, but also in the reporting of project preparation and implementation.

Lack of information and management tools: A database of external assistance information has been compiled by DCITA (IDEA project) over the past six years, however due to internal and technical problems the database is not yet operational.

Lack of partnership and policy dialogue with the donors: There is no institutional mechanism of regular information and dialogue with the donor community on long-term external assistance policy and priority setting aspects.

Staffing and capacity development: The three directorates appear to be largely understaffed, thus not in a position to efficiently fulfil all tasks. The problem is not only one of numbers, but also one of staff capacity that needs to be

developed with adequate donor assistance. The main areas in which particular efforts need to be focused to develop the existing capacity are: 1) management and monitoring with established and open standards and operating procedures for registration, reports and processes; 2) a clear understanding of the donor institutions and activities to develop an effective and operational dialogue with the donor community; and 3) develop internal and external communication strategy to foster coordination effectiveness, in particular to establish a web-based management and information management system.

The Donor Government Working Groups (DGWGs)

As part of the decisions taken during the first annual Donor Conference (January 2006), DGWGs were established as a permanent structure of sector-based dialogue between donor and Government representatives. The DGWGs are aimed at sharing responsibility between a lead government agency (and other relevant government participants) and a lead donor (and other relevant donor participants) for each group and thematic sub-group. Not less than 5 thematic working groups and 23 sub groups were established as part of the DGWG framework, which appears to be many by any standards. To date only one sub group (trade and macro economics) has met twice. Other groups have met once or not at all.

The lack of inter-ministerial coordination and information, a key precondition, is also a critical factor in the non-functioning of the DGWGs. However, despite the rare meetings taking place, the DGWG is the most advanced form of overall dialogue between the Government and donor community. The group has an important potential to develop into a very efficient forum to discuss Government sector strategies. The DGWG in particular could become the appropriate forum to work out the Paris Declaration action plan.

Conclusions and Recommendations

Conclusions

From a purely institutional point of view, an aid coordination architecture exists. All elements and institutional structures that are commonly established in other CEE countries are established: a National Coordinator and a specific NAC for

EU assistance, common in preaccession countries; institutions seemingly forming a structure that could be compared to a National Coordinating Unit, if properly coordinated; and special units in line ministries responsible for international assistance in their respective sector.

However, the paradox is that the overall architecture does not function properly. The architecture does not create a long-term national development programme with a planned mobilisation of external assistance, policy dialogue between the Government and the donor representatives, and effective sector-based dialogue.

The reasons for this non-functional existing structure are many, which can be summarized as follows:

- Lack of a unifying senior leadership at the political level of the Government;
- No coordinated structure among MoE coordination directorates, limited information sharing and cooperation among the three directorates involved; limited staff capacity of the Directorates, inadequate working relationships and functional divisions with the MoF and line ministries;
- Overwhelming structure of the DGWGs with too many groups and sub groups, which given the limited staff capacity, cannot be effectively implemented; and
- Overlapping complex of legislation related to coordination of external assistance, often circumvented by the donors.

Recommendations

The following is a series of recommendations whose objective is to reinforce the present aid coordination mechanisms to maximize the use of international assistance in the framework of a national strategy programme in partnership with the donors.

Short-Term

1. Analysis of all current regulations and legislation related to aid coordination to consolidate and reconcile roles, responsibilities and functions. Review and redraft Regulation 153 in view of reinforcing internal coordination of the existing directorates and form a National Coordinating Unit, reporting directly to, and serving as a permanent secretariat to the National Coordinator.
2. Review of the current aid coordination institutions and of their respective internal organisation and functions

in view of setting up a streamlined and more coordinated architecture. The functional analysis should include human resource allocations; unit functions, responsibilities and activities; human resource capacity development needs; communication channels and reporting requirements; and relations with other aid management entities at the senior level, MoF, line ministries, donors, etc.

3. Appoint a senior government official as the National Coordinator for external assistance with an overall responsibility for long-term development policy and strategy preparation, and policy dialogue with the donor community. The National Coordinator has to be mandated and empowered by the Government as its representative in all development policy fora and communication with the donors at the policy level. This new high level Government representative is to take over from the existing First Deputy Prime Minister and the Minister of Economy.
4. Establish regular high level policy coordination meetings (quarterly, monthly) between the National Coordinator and donor community representatives.
5. Review the DGWG structure and the related ToRs with a view to make them more realistic and workable. Review the number of DGWGs and thematic sub-groups with the aim to reduce the number.

Medium-Term

6. Set up an internal permanent coordination structure for the preparation of a medium-term national development plan including an external assistance strategy.
7. Focus the yearly donor conference on one wide particular sector or area, such as public administration reform, judiciary reform, education, public procurement reform, etc. This would focus attention of the donor community on one particular priority of the Government's strategy for the year to come. The conference should be organized mid-year for the following year to give time to the donors to prepare project proposals and for coordination.
8. Continued strengthening of the DGWG network so it is functioning regularly in a limited number of areas where the clear leadership of the Government is present. Concentrate on the major sectors of Ukraine's economic and social development priorities.

Long-Term

9. Depending on the Government's policy priority, establish a single national coordinating institution responsible altogether for aid coordination and European integration. This institution could take the form of an office, ministry or government agency attached to the Prime Minister or the President. The entity reports to the National Coordinator.
10. The National Coordinator receives a broader mandate to coordinate both European integration process and aid coordination to reflect the long-term policy strategy formulated.

Donor Readiness for Cooperation

Overview

A variety of factors have driven donor interest during the transition process. Since 2005 a new set of factors have emerged to drive donor interest and assistance. The macro factors include: 1) assessment of political will and capacity to accept donor-assisted efforts; 2) stability of the government and ability to work in a stable operational environment; and 3) access to government and non-government stakeholders in an effective and efficient manner. Given these factors and a review of the assistance, there is evidence that Ukraine is not attracting as much external assistance as it warrants and not utilizing the assistance received effectively.

The question is what donors could do independently and as a whole to improve upon the current aid coordination and management situation to improve aid effectiveness? It is up to the donor community to 'buy into' the established system so a real partnership emerges. While such partnerships have evolved over the years, there is awareness that such partnerships can be strengthened so there is more of a focus on results and what has been achieved rather than the amount of funds received and projects completed.

The Paris Declaration provides a framework to advance this partnership. This section provides a diagnosis and recommendations of how donors can apply the Declaration's components within the Ukrainian context. The topics are per the Declaration's commitments: dialogue, ownership, alignment and harmonization with a results orientation and mutual accountability. Also, a summary section is added as Attachment B to provide a framework for the Government to take the lead, with donor support as needed, to identify Ukraine's Paris Declaration targets.

The main recommendation of this section relates to the first section of this assessment: a coordinated and collaborative effort by donors and Government, under a working group type structure, preferably under the umbrella of the United Nations as an objective facilitator, is required to provide the necessary support to build the strategic, programming, monitoring, and financial management capacities within a workable institutional structure. Such an effort needs donor support so there is a wholesale commitment and set of activities under Government leadership. Such an effort can be a first test case of the donor commitments within the harmonization and alignment components of the Paris Declaration.

Dialogue

Dialogue between the Government and donors occurs but mainly in very formal settings. Meetings between civil society entities and donors do occur but are not as widespread with seemingly more occurring in the regions and on cross sector areas such as addressing HIV/AIDs. The discussions between the Government and donors happen with the appropriate organizational units responsible for various aspects of aid coordination. However, the issue that emerges that hinders dialogue is: donors have to meet with a variety of unit representatives to make progress on programming or in doing monitoring donors often have to go to a very senior level, up to the CoM, to have decisions made. This leads some donor efforts to 'work' the system to champion programs and projects in a more donor-driven process. This results in a very high up-front investment cost to get programs and projects going as well as completed. It has also led to the formation of ad hoc groups of donors meeting to address certain sectors and issues. While the later is not a bad result, in the absence of more regular donor-government meetings and interface, it becomes the only mecha-

nism for sector, issue and program coordination for donors. This is especially an important issue when approaching cross-sector issues as has been proven in judiciary reform.

The absence of an adhered to overall national strategy (with monitoring indicators and linkages to the budget) or competing or non-existent sector strategies also hinders dialogue between the Government and donors. Some sector or issue strategies do exist and are used by both donors and the Government. Donors are often looking for direction in their programming as well as trying to find how their efforts have met national objectives. In the absence of such strategies or the presence of weak or competing strategies, donors are left searching for priorities. Such an approach is not efficient and effective costing the donor and Government time which ultimately hurts aid delivery and, worse, could lead to a misallocation of resources to non-priority areas. The latter is mostly avoided given the history of experience donors have in the Ukraine as well as the networks developed by Government officials and donors to overcome this hurdle.

The effort of the DGWGs is a step in the right direction to establish dialogue between the two parties in a more systematic and formal setting. While the DGWGs are at an initial stage and have gotten off to a slow start, an investment of time and effort is warranted by donors so there is a real commitment to make this mechanism work. Such an effort has to definitely evolve from being donor driven to be fully Government driven. There should also be attention to include civil society and business representatives on a case-by-case basis since issues addressed by Government or donors are not always for Government to do on their own.

The main recommendations to improve dialogue are:

Short-Term

1. Input sought from and provided by donors into overall national and sector strategies especially in regard to how external assistance can support strategy components. Donors support the national and sector strategy formulation process to the extent required.
2. Donors support the further strengthening of the DGWG approach so that dialogue is ongoing and systematic. Donors participate in the DGWGs and align their programs in line with DGWG activities as well as pursue common programming and monitoring efforts.
3. Donors assist in further developing channels of input for civil society and the private sector to enter such discussions as needed. Such channels can be into 1) the national and sector strategy processes; and 2) the DGWGs as needed.

Ownership

The ownership of the external assistance process is uncertain in the Ukrainian context. The Paris Declaration commits partner countries, as previously illustrated in this report, to exercise effective leadership over their development policies and strategies and coordinate development actions. Donors have the obligation to respect partner country leadership and help strengthen their capacity to exercise it.

As stated previously, there is an absence of a clear national development strategy that is monitored and linked to the budget, and a mix of sector or issue oriented strategies. There is no results-based management approach tied to the strategies and budgeting. The civil service system does not have a performance-based approach. Donors have assisted developing regional programs and strategies as well as some sector-oriented strategies.

The main recommendations for donors to support ownership are in previous sections regarding 1) establishing a Paris Declaration implementing structure involving Government and donors with a stand by facility to implement this assessment's relevant recommendations; and 2) donors support to apply the PFM, SWAp and budget support recommendations earlier in this report.

Alignment

Alignment between the Government and donor community is based on the Government creating the mechanisms for alignment to occur. It is also based on the donor community providing their overall support of partner countries' national development strategies, institutions and procedures. The aim is to achieve such alignment so that donors can ultimately provide untied direct budgetary support. Of the 5 alignment subcomponents, the four most relevant to aid coordination and within the scope of this assessment are reviewed below.

- Donors align with partners' strategies;
- Donors use strengthened country systems;
- Partner Countries Strengthen Development Capacity

with Donor Support; and

- Public Financial Management Capacity is Strengthened.

Donors Align with Partners' Strategies

The Paris Declaration obligates donors to base their overall support and reviews of support on such strategies. Donor funding should be linked to a single framework of indicators from these strategy documents. Donor conditions should be based on these strategies aimed at achieving results as indicated in the strategies. Annual reviews should monitor these indicators so that both government and donors can consistently identify performance. The elements for such alignment are absent in the Ukraine.

As previously indicated, there is an absence of a national strategy. There is the previously mentioned Strategy for Attracting International Technical Assistance, 2005-2007. While the strategy illustrates various areas, its scope is wide and diverse so that linking programs and projects to such a strategy by line ministries and donors is not difficult. This weakens the ability of donors to target scarce external resources to clearly identified priority development issues. Donors also use line ministry strategies (some of which were donor developed or supported) as well as regional development efforts. Conditionality is used on some programs and projects. Such an approach is favored by donors given corruption and performance issues.

The short-term recommendation is for donors to support and participate in the previously recommended External Assistance Assessment so there is a clear understanding by donors of overall and sector funding flows, attention where funding may be required, more direction on comparative advantage, and better knowledge of current and future potential funding modalities.

Medium-Term

1. As components of strategy, dialogue and monitoring are put in place, donors begin using the components in coordination with the Government. The issue of conditionality should be continually monitored and used as a reinforcement mechanism to ensure funds are allocated transparently and to the purposes intended.

Donors Use Strengthened Country Systems

Use of the strengthened country systems is a key obligation of the donor community as described in the Paris Declaration. Donors should cooperate on the system design as well

as implementation. Donors have the obligation to work with Government to establish the frameworks so that reliable programming and assessments can be done. And, they have the obligation to integrate the diagnostic reviews and performance assessment framework within country-led strategies for capacity development. Currently, such use does not occur. The donors should use such systems and procedures to the maximum extent possible. When the use of the country systems is not feasible, help should be provided to strengthen rather than undermine the country systems and procedures. To the extent possible, project and program approaches and day-to-day management structure (i.e. project implementation units, project offices) should be avoided. Harmonized and straightforward performance assessment systems should be in place.

Donors in the Ukraine do not use such systems since they are either weak or absent. There is some donor program alignment with sector strategies but not in a manner that goes through the programming and monitoring cycle. Each donor still follows their own program or project cycle. Donor assistance is project and program based for the most part. One bilateral donor has attempted to provide financial support according to Paris Declaration commitments as a test case. While the donor was successful, the obstacles confronted have led to the donor rethinking such approaches. The EU is aiming to eventually provide about 50 percent of its assistance in the form of budgetary support pending the development of appropriate mechanisms.

Donor interactions are with government counterparts within the current framework on an as needed basis. DCITA is a contact point, but one of several. These units are involved during programming as well as the reporting of donor monitoring and evaluation efforts. There are no joint Government-donor or internal government monitoring and evaluation efforts.

Significant attention is needed to this subcomponent. The actions needed include:

Medium-Term

1. Preparation of a mutually agreed system for external assistance programming, management, monitoring and evaluation as part of national systems so that there is eventually a transition away from project and program based aid to a more financial and budget support assistance.

2. Cooperation between donors and the Government to establish such systems. A transition strategy for donors to use established systems once they are in place.

Long-Term

3. Donors commit to phase out the use of program and project implementation units.

Partner Countries Strengthen Development Capacity with the Support from Donors

As indicated in the Paris Declaration, capacity development is the responsibility of the partner country with the support of the donor community. The aim is to have the capacity to plan, manage and implement and account for results of policies and programs so that development objectives are achieved. Donors are committed to align their analytic and financial support with partners' capacity development objectives and strategies, make effective use of existing capacities and harmonize support for capacity development accordingly. The recommendations for this subcomponent are throughout this assessment.

Public Financial Management Capacity is Strengthened

An adequate public financial system is a necessity for aid effectiveness according to the Paris Declaration. A transparent and accountable system is required for SWAps and DBS to become a reality. Donors should be committed to providing reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules. They should also be committed to relying, to the extent possible, on transparent partner government budget and accounting mechanisms. Both donor and partner countries should implement harmonized diagnostic reviews and performance assessment frameworks in public financial management.

Most donors currently do provide indicative multi-year budget frameworks for their respective assistance. These frameworks are outside of the Government's financial management framework except for credits and loans. There is no alignment of donor programming cycles with Ukraine's budget cycle.

There are numerous donor actions that can be taken to upgrade the public financial management system within Paris Declaration obligation commitments. These recommenda-

tions were outlined in out line earlier in this report including the roles of donors to support the development of the PFM system and use the system and modalities once in place.

Harmonization

Harmonization is aimed at harmonizing donor actions in a transparent and effective manner with Government. The important subcomponents related to Ukraine's aid coordination in the scope of this assessment are:

- Donors implement common arrangements and simplify procedures; and
- More complementary division of labor.

Donors Implement Common Arrangements and Simplify Procedures

This subcomponent commits donors to 1) implement donor action plans developed as part of the follow-up to the Rome High Level Forum;¹⁸ 2) implement, where feasible, common arrangements at the country level for planning, funding, disbursement, monitoring and reporting to government on donor activities and aid flows; 3) increase the use of program-based modalities; and 4) cooperate to reduce the number of separate missions to the field.

Donors in Ukraine mainly use traditional external assistance delivery modalities. There have been advances in the use of trust funds and other mechanisms that donors collaborate within but mostly outside the country, e.g. some European Bank for Reconstruction and Development (EBRD) funding is from envelopes of funding with contributions from various bilateral donors, and some United Nations and World Bank trust and other common funds that are more issue based. The National HIV/AIDS Program is one collaborative effort with Government in the lead, involvement of various civil society groups and substantial assistance from several donors. Some of the trust fund mechanisms are reportedly not used or underused. In addition, the U.S. Millennium Challenge Corporation's modality is also at the initial stage of investigation reaching a signed Threshold Program agreement on anticorruption, but, has not been implemented. There is currently no true alignment of donors with government strategy, financing, monitoring, procurement and other systems given the above discussions. There is collaboration in some sector and sub-sector areas on donor programming and monitoring but this is on an ad hoc basis coordinated by the donors themselves and has limited depth. Donors mainly program and monitor their programs individually in traditional manners.

18 The agreed activities of the 2003 Rome High Level Forum were: 1) ensure that harmonization efforts are adapted to the country context, and donor assistance is aligned with development recipient's priorities; 2) expand country-led efforts to streamline donor procedures and practices; 3) review and identify ways to adapt institutions' and countries' policies, procedures, and practices to facilitate harmonization; and 4) implement the good practices, principles and standards formulation by the development community as the foundation for harmonization.

The recommendations for this subcomponent are mainly reflected in the previous 'Alignment' section. Thus, the key recommendations are:

Short-Term

1. As an initial step, donors plan more collaborative programming and monitoring missions as well as common issue studies. To help make better use of the DGWGs, several theme or sub theme groups are selected as test cases where joint programming and monitoring or evaluation missions can be planned.

Medium- to Long-Term

2. Donor use of such established systems and modalities once the Government has sufficient ones in place.

More Complementarity Division of Labor

Donors commit to make full use of their respective comparative advantage at sector or country level by delegating, where appropriate, authority to lead donors for the execution of programs, activities and tasks; and work together to harmonize separate procedures.

Donors in Ukraine do identify their comparative advantages given their focus in specific sectors or sub-sectors at the national and regional levels. Such comparative advantage shows when looking at the designated donor co-chairs of the DGWGs. Where there are various donors in one sector, sub-sector or region there is some coordination but it is done mainly by the donors themselves on an as needed basis. There is some successful experience as mentioned previously with the National HIV/AIDS Program. There is no effort to harmonize internal country procedures though there has been donor cost sharing for single project or program efforts. Procedures or funds that are harmonized are done at the global or regional level by donor countries contributing to common international or regional development or financial organization programs and other financing modalities. It is evident that donors on the ground are struggling to follow their respective headquarters' direction to apply Paris Declaration commitments within Ukraine. DCITA or the other Government external assistance units do not do a comparative assessment of donors in a systematic way. They do, at times present proposals to donors they think may have interest in certain initiatives. This responsibility is contained in DCITA's mandate.

Short-Term

1. Donors have the opportunity to streamline and more clearly identify their interests and comparative advantage to government so that DCITA (or other relevant bodies) have a clear idea of what the specific donor will support. Such donor comparative advantages should be clearly identified in programming exercises over the medium term. This information should be discussed and shared with DCITA (or other relevant bodies) so they can assess donor interests and comparative advantage to guide donors to key priority sectors, sub-sectors or regions before standard donor programming missions. Such information should initially be included in the previously recommended External Assistance Assessment.

Managing for Results

The Paris Declaration commits donors to link country programming and resources to results and align them with effective partner country performance assessment frameworks. Donors work with partner countries to rely, as far as possible, on partner countries' results-oriented reporting and monitoring frameworks. And, donors harmonize their monitoring and reporting requirements and eventually harmonize them in joint formats for periodic reporting with partner countries.

Given Ukraine's stage of economic development as well as its technically skilled personnel, its Government is in a good position, if political will is present and initiative taken, to advance on more of a results-based management approach. Much donor support is needed to support applying such an approach. Donors do have result-oriented frameworks for their programs and projects. Donors that have strong monitoring systems have reported better performance and use such systems to improve transparency and accountability. While monitoring information is shared with the Government, there is limited use except actions taken by the respective donor. While such a Government-wide exercise would take much effort, applying the result-based management approach to implementing external assistance could be a good first step.

The recommendations are:

Short-Term

1. Donors continue to help strengthen and work within the DGWG framework to identify a set of indicators for their respective sectors and sub-sectors to provide guidance on sector and aid investment performance.

Short- to Medium-Term

2. A cooperative effort by one or more donors, with the DCITA and other aid coordination units, to prepare a results-based management system for external assistance management. The system would establish indicators of national or sector indicators with a cycle of activity to provide ongoing monitoring.
3. One or more donors assist in the human resource capacity development of the aid coordination units and line ministries so that there is a more results-based orientation in sector strategies and overall external assistance monitoring. This could be done in a combination effort with the Network of Policy Analysis Groups so that aid coordination, policy and, possibly, strategy development, are integrated into one unit in each line ministry.

Mutual Accountability

The Paris Declaration commits donors to provide timely, transparent and comprehensive information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.

The exchange of information between the Government and donors occurs mainly on programming missions and some evaluation missions. The formal requirements are for donors to register technical assistance projects with DCITA according to Regulation #153, inclusion of loan and credit information in the budget, and the official signing of programming documents. This situation has improved with recent donor-government meetings and the initial activities of the DGWGs. Though the DGWGs need strengthening, they are a positive first step. The DCITA reports that donor-provided information to include in their aid database has improved since DCITA has been preparing reports for Government and donor consumption at these meetings. Further provision of donor information is required in a more systematic manner for all forms of external assistance. Donors need to be cooperative in providing the information and work with Government on the reporting systems for programming, coordination and monitoring purposes. Donors would benefit from such information sharing as would Government.

The recommendations are:

Short-Term

1. Donors provide programming and monitoring data to the Government in a systematic manner (to be determined by the appropriate government unit(s) and donors) in a way that the units can use for their own analysis and reporting. This includes information for aid management databases.

Annex A

Common Practice: Major Responsibilities of Government Authorities in Aid Coordination

Common Practices

The following table summarizes and compares Ukraine's aid coordination architecture and respective institutional responsibilities to that commonly established in neighbouring, preaccession countries. A more complete comparative analysis appears proceeds the table.

	Ukraine	CEE Preaccession Countries Common Practice
National Coordinator (NC)	<ul style="list-style-type: none"> Function split among two Ministers; Overall political coordination at Cabinet of Ministers; Minister of Economy, chair of the EU-Ukraine cooperation Council; and First Deputy Prime Minister: coordination of financial assistance. 	<ul style="list-style-type: none"> High level Government political representative; Sometimes supported by a national committee for foreign assistance; Responsible for assistance strategy definition; Decides for budget allocation among ministries from external assistance; Signs programmes and MoUs with donor representatives; Represents Government in all high level fora related to external assistance; and Reports to the Prime Minister and to the Parliament on level of programme implementation.
National Coordination Units (NCUs)	<ul style="list-style-type: none"> 3 different Directorates in the Ministry of Economy with split responsibilities; DCITA: Project registration; DCITA: Coordination of DGWG; DCITA: intergovernmental coordination for monitoring of all TA projects; Dir. IFIs: Preparation of loans technical appraisal, monitoring of all IFI projects; Dir. IFIs: Preparation of annual strategic programmes and action plans for Ukraine's cooperation with IFIs; Dir. EU assistance: Coordination & monitoring of EC/EU specific assistance; and Supports, reports to the NC for EU assistance in his capacity of EU-Ukraine Cooperation Council. 	<ul style="list-style-type: none"> Generally in 1 single unit; Regular sector working meetings with donors' community; Preparation of strategies for the NC; Preparation with donor representatives and line ministries, of yearly assistance programme; Project database administration; Project/programme registration; Sector coordination meetings; Monitoring of project implementation; Reports to the NC; Prepares the negotiations of the NC with donor community; Harmonize and match Government sector priority areas with technical and financial assistance proposed by donor community; and Assist PIUs in preparing draft project documents such as ToRs and technical specifications necessary for the procurement and implementation of individual project activities.
Line Ministries and PIUs	N/A	NAO is the financial counterpart of the NC and is responsible for management of external assistance funds transferred in the country.
National Authorizing Officer (NAO)	N/A	Controls procurement and financial management of projects in a decentralized environment.

	Ukraine	CEE Preaccession Countries Common Practice
National Fund or Central Finance & Contracting Unit (CFCU)	<ul style="list-style-type: none"> Define project and programme priorities with donors; and Monitor project implementation. 	<ul style="list-style-type: none"> Under co-ordination of the NCU, programming, identification and formulation of programmes and projects, on the basis of agreed priorities, ensuring their conformity to the country; Technical preparation of the projects in close cooperation with the NCU; (Terms of Reference/Technical Specifications, etc.) Technical implementation of projects, including any related policy support, monitoring and execution; and Procedural and administrative management.

The National Coordinator

Traditionally in Central and Eastern European preaccession countries a National Aid Co-ordinator (NAC) is appointed by the Government as the official interface with European Commission (EC) services. The NAC is therefore the country's main counterpart and contact authority with the EC for EU assistance. One of the NAC's important responsibilities is the preparation of a Development Strategy, materialised into a National Development Programme, which becomes an instrument of partnership with the overall donor community.

The NAC is generally regarded as the overall coordinator for all technical assistance from other sources, be they from other multilateral organisations (the UN for example, or the Council of Europe), or from bilateral EU Member States or non-EU sources, such as the USA or Japan.

The NAC in this case is an official of Ministerial or State Secretary status, having an overall responsibility for aid and donor coordination, as well as on programming and on the project cycle management. The NAC is assisted by a department of his ministry, which is tasked with the day-to-day implementation of the NAC's responsibilities, which encompass multi-annual and yearly programming, as well as monitoring and reporting.

There is no general rule as to the selection of a particular ministry to assume the NAC's position and responsibilities. And there is no predestined ministry to assume this responsibility. The situation varies from one country to another. The NAC can rest at the Government's Office like in Slovakia; the Ministry of Foreign Affairs, like in Lithuania (by 1999 the functions of NAC were transferred to the Minister of Finance) and Bulgaria; the Ministry of Finance as in Estonia, Latvia and the Czech Republic; or with a line Ministry as in Albania and Slovenia.

In some cases, the functions of the overall National Coordinator is assumed by governmental commissions composed of ministers, meeting regularly to define the overall strategy and policy in respect of international assistance.

In Lithuania, by 1994 the Prime Minister set up two Government commissions: one for the coordination of EU integration process, the second one for the coordination of foreign technical and financial assistance to Lithuania. These two commissions met regularly under the Prime Minister's chairmanship. These two commissions composed of Ministers or their representatives had a political role to define the Government's strategy. The commissions discussed the political issues and their decisions are applicable by all line ministries. The NAC was then established at the Ministry for international economic relations, then at the Ministry of Foreign Affairs, finally at the Ministry of Finance.

In Croatia, in 2002 the Government appointed the members of a Permanent Working Group (PWG), composed of 12 line ministries, of the Minister for European Integration in his capacity as the National Coordinator for EU programmes, and of the Department for Financing EU assistance Programmes and Projects of the Ministry of Finance. The PWG is chaired by a Deputy Prime Minister. The PWG has an overall responsibility for aid and donor coordination from all sources of assistance received by the Republic of Croatia.

National Coordinating Units

Most CEE partner countries have established what is commonly called Aid Coordination Units (ACoU). Typically, the role of the ACoU is to support the NAC's responsibilities in fulfilling the day-to-day coordination and project management tasks, thus acting as the NC's secretariat. The ACoUs were mostly established as single institutions, directly reporting to the National Coordinator.

The ACoU's responsibilities can be summarized as follows:

- To liaise with the donor representations (EU and non-EU) for finalisation of the strategy documents;
- To coordinate the work of PIUs for the preparation of yearly programmes and projects;
- To prepare and to maintain an overall project database summarising the technical assistance activities of the overall donor community;
- To organise for the National Coordinator, all donors' coordination meetings at technical level, to review and coordinate the sectoral donor activities;
- To work upon requests in close cooperation with the PIUs to prepare and draft the ToRs of individual projects;
- To monitor in close cooperation with the PIUs; and
- To plan and to organise mid-term and ex-post evaluation of project effectiveness.

In some preaccession countries, the European integration process was coordinated by the same institution, but that is not a general practice. As the accession process proceeds, governments discovered that most, if not all, the international technical assistance was accession focused even though implementation was by donors other than the EC and EU members.

In Lithuania, from 1993 to 1999, the European Integration Department (EID) within the Ministry of Foreign Affairs was the Aid Coordination Unit. The Department was sub-divided into five divisions, one of which was the Technical Assistance Division (TAD) dealing with all technical assistance projects, mainly from the EC PHARE funding but also from bilateral (EU and non-EU) and other sources. All donors were coordinated by the TAD.

As a result, TAD, between 1993 and 1999 organised a number of donor coordination activities. The TAD organised a number of aid and donor coordination activities such as regular high level coordination meetings; sector coordination meetings with selected donor representatives; regular reports to the National Coordinator, Government and Parliament; and project database administration.

By 1999 the NAC responsibilities were transferred from the Minister of Foreign Affairs to the Ministry of Finance. The EID-TAD stopped activities in aid coordination, which were transferred as well to the Ministry of Finance, in a newly created department having the same functions and responsibilities. Since 2001, the Central Project Management Agency (CPMA) is in charge of both technical coordination and procurement management. All along thus, Lithuania kept the same approach of concentrating aid coordination and management within a single institution.

In Serbia, until 2004 the aid coordination responsibility and European integration coordination were handled by two separate departments within the Ministry of International Economic Relations (MIER). By 2004, the then new Government created a separate Serbian European Integration Office (SEIO) reporting directly to the Deputy Prime Minister. The staff was transferred from the former Department for European Integration, but the mandate and responsibilities were increased. The aid and donor coordination activities remained with MIER.

Line Ministries and Project Implementation Units (PIUs)

The line ministries have a leading role together with the NCU in the definition of technical priorities and activities, as well as in the design and monitoring of projects. In many CEE partner countries, PIUs were established to boost project implementation and reporting, thus facilitating monitoring. The PIU in close cooperation with the NCU, then leads the project preparation phase by drafting the TORs, technical specifications, or feasibility studies depending on the type of projects considered. They are responsible for the technical direction of the projects and sectors in their respective portfolio, for the preparation and technical management of the projects. This direction is exerted during the entire duration of the project cycle, from programming to evaluation.

As far as project registration is concerned in other CEE partner countries the registration follows different patterns that may vary from one another. There again, the EC being the major contributor, the Government generally establishes a finance and contracting unit to centralise the registration and related procurement operations. There is always a central authority in charge of representing the Government for relations with donor countries or organisations. The National Coordinator is commonly the institution in charge of the registration process. The registration follows the signature of a bilateral agreement governing the assistance programme granted by the donor partner. The bilateral agreement lists and details all projects and activities that will be developed in the frame and lifetime of the agreement.

Annex B

Toward Achieving Paris Declaration Commitments

The Paris Declaration on Aid Effectiveness includes a table of indicators and targets for progress. The table includes indicators taken from the partner country (Ukraine) and donor commitments agreed to in the Declaration. These indicators are organized by the Declaration's components. They are to be measured nationally.

The following is a draft indicator table for Ukraine. The Department for the Coordination of International Technical Cooperation of the Ministry of Economy presented the Government's understanding of its Paris Declaration commitments on 6 June 2007 to the donor community.

The elaboration of the table and the appropriate targets should be determined by the Government in consultation with donor country representatives. The targets indicated are based on the baseline targets to illustrate what needs to be decided. The sooner such targets are identified, the better donor support can be targeted to address the needs.

Component indicator	Target for 2010
Ownership	
1 Ukraine has a national development strategy that has clear strategic priorities linked to a medium term expenditure framework and reflected in annual budgets.	Accomplished by 2010
Alignment	
2 Ukraine's procurement and public financial management system either (a) adheres to broadly accepted good practices or (b) have a reform program in place to achieve these.	By 2010 Ukraine has in place a procurement and public financial management system that adheres to broadly accepted good practices.
3 Aid flows are aligned with national priorities measured by the percent of aid flows to the government sector that is reported on the Ukraine's national budget.	At least 85 percent of aid flows are reported in the budget. ¹⁹
4 Strengthen capacity with coordinated support measured by the percent of donor capacity development support provided through coordinated programs consistent with Ukraine's national development strategies.	At least 50 percent of technical cooperation flows are implemented through coordinated programs consistent with national development strategies.
5a Use of country public financial management systems measured by percent of donors and of aid flows that use Ukraine's public financial management systems, which either (a) adhere to broadly accepted good practices or (b) have a reform program to achieve these.	All donors use PFM system. or 90 percent of donors use partner countries' procurement systems. A two-thirds reduction (baseline) in the percent of aid to the public sector not using partner countries' PFM systems. or A one-third reduction in the percent of aid to the public sector not using partner countries' PFM systems.
5b Use of country procurement systems measured by the percent of donors and of aid flows that use Ukraine's procurement system which either (a) adhere to broadly accepted good practices or (b) have a reform program in place to achieve these.	All donors use partner countries' procurement systems. or 90 percent of donors use partner countries' procurement systems. A two-thirds reduction in the percent of aid to the public sector not using partner countries' procurement systems or A one-third reduction in the percent of aid to the public sector not using partner countries' procurement systems.
6 Strengthen the capacity by avoiding parallel implementation structures – Number of project implementation units (PIUs) in the country.	Reduce by two-thirds the stock of parallel PIUs.
7 Aid is more predictable – Percent of aid disbursements released according to agreed schedules in annual or multi-year frameworks.	Halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.
8 Percent of bilateral aid that is untied.	Indicator measure of progress over time.

¹⁹ The Paris Declaration minimum amount is stated as 85 percent. Other amounts indicated in the table are also stated as baseline amounts.

Component indicator	Target for 2010
Ownership	
9 Use of common arrangements of procedures – Percent of aid provided as program-based approaches.	66 percent of aid flows are provided in the context of program-based approaches.
10 Encourage shared analysis – Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews that are joint.	40 percent of donor missions to the field are joint 66 percent of country analytic work is joint
Managing for Results	
11 Results-oriented framework – Have in place a transparent and monitorable performance assessment framework to assess progress against (a) the national development strategies and (b) sector programs.	Indicate a date when a workable results-oriented framework will be in place.
Mutual Accountability	
12 Undertake mutual assessments of projects in implementing agreed commitments on aid effectiveness including those in this Declaration	Indicate a date when a mutual review assessment system is in place.

Annex C

Terms of Reference

Ministry of Economy of Ukraine and United Nations in Ukraine

Joint Capacity Assessment: Aid Effectiveness, Coordination and Management in Ukraine

Terms of Reference

Having strong economic potential and big population, by most indicators, Ukrainian economy does not depend on aid. However, in the recent years the level of Official Assistance (OA) has been on the rise and currently Ukraine has more than 30 donors including UN agencies, with a lot of emerging donors from Eastern Europe starting their operations in the country. Concentration of the assistance in the key sectors and its influence over economic reform make the effectiveness of donor efforts a sharp issue. Most aid coming into Ukraine is provided in form of technical assistance, but some donors consider using other aid modalities (EC plans to provide direct budget support, MCA has mix of used modalities). According to many donors aid coordination represents “acute problem” in Ukraine and generally welcome initiatives which improve Government leadership and make it more assertive.

The institutional structure of the aid coordination in the government is complex and tangled. In the 90s the coordination of technical assistance was a responsibility of the special Government agency, with approximately 100 employees at the and around 140 in the regions. After the agency was dissolved the mandate was contended by various Government bodies. In 2002 the Cabinet Regulation #153 delegated the responsibility for donor relations to the Ministry of Economy, where the special structural division – the Directorate for Coordination of International Technical Assistance (DCITA) was created.

The responsibilities of DCITA currently include the provision of state registration, monitoring and tracking of aid flows. Its structure include four distinct units responsible for various donors and according to the Director of DCITA, Department is seriously understaffed. Work time is consumed by administrative services, which the Department has to provide to the donors, such as state registration or tax exemptions, which does not allow the Department to perform the monitoring functions efficiently and provide strategic guidance to the donors.

Despite DCITA being one-stop-shop for registration of aid activities, other Government actors assume limited responsibilities in relations with donors. Ministry of Economy also includes the Department of European Integration and other departments, which work on donor relations. Ministry of Finance is responsible for loans and relations with the IFIs. At different period, other departments emerged taking upon themselves the coordinating role for donor activities. Although these attempts were not backed by adequate capacity, they complicated the institutional structure, created overlaps in the mandate and undermined the role of DCITA. One of the major problems of the aid coordination architecture in Ukraine is that no high level Government focal point has emerged.

On 21 July 2006, the Ministry of Economy / Directorate of Coordination of International technical Assistance (DCITA) has officially requested the United Nations Resident Coordinator Office (UN RCO) to provide further technical assistance with regard to the effective and efficient coordination, harmonization and alignment of international technical assistance to Ukraine which is in line with the principles of Paris Declaration on Aid Effectiveness. Following a number of consultation, the Ministry and the UN have agreed to organize a Workshop on Aid Coordination and Paris Declaration in early 2007 which to be followed by a capacity needs assessment exercise.

The UN RCO and DCITA have agreed to deploy a capacity assessment mission prior to the development of a comprehensive capacity building project.

Objective of the exercise

The objective of the exercise will be to:

- Review and analyse the aid flows and the aid coordination architecture in Ukraine;
- Define the scope and nature of current aid coordination, harmonization, alignment and management process in Ukraine;
- Assess capacity needs of Ministry of Economy and the relevant Government counterparts for aid coordination and management;
- Identify constraints and opportunities relating to the implementation of the Paris Declaration on Aid Effectiveness; and
- Provide recommendations for a comprehensive response, including institutional and technical arrangements for the effective and efficient aid coordination, harmonization, alignment and management.

Tasks and Responsibilities

This exercise is expected to:

- Provide an overview of experiences/practices/regulations/mechanisms used by Government and donors in relation to aid coordination, harmonization, alignment, and management in Ukraine;
- Identify the capacity-building needs of the government agencies responsible for attracting, coordinating and managing aid, primarily the Ministry of Economy;
- Assess the tools used by the Government to collect process and disseminate information to monitor and evaluate development cooperation and aid flows;
- Assess the burden on the Government by the donors' producers for providing technical assistance, programming and operations;
- Identify and document best practices and lessons learnt; and
- Recommend in line with the principles of Paris Declaration:
 - a. Ways by which aid programmes can be better aligned with national priorities and institutions;
 - b. Options for the optimization of the existing procedures of aid coordination, harmonization, alignment and management;
 - c. New mechanisms for Government to coordinate external aid flows, ensure aid accountability and transparency as well as facilitate substantive discussions on areas and directions for the use of aid;
 - d. Mechanisms to facilitate/create incentives for sharing information within the Government, which is fundamental to effective coordination of aid;
 - e. Ways to enhance synergies and harmonize donor programmes and procedures;
 - f. Experiences from other countries and successful models, practices and approaches that can be adapted and used in Ukraine;
 - g. An action plan to deal with short-term, medium-term and long-term priorities and capacity building requirements; and
 - h. Package of support by the donors to the DCITA and other responsible Government bodies.

Tentative Schedule and Timeframe

The assessment is scheduled to start on 10 April 2007 with:

- Government's self-assessment (15 days)

The team is expected to start on 28 May 2007:

- Refining of the methodology;
- Familiarization with existing documents/reports/assessments and meetings with Ministry of Economy;
- Interviews with stakeholders including, Government, donor agencies and think tanks (team members expected to be in Kyiv);
- Analysis of gathered material and drafting the preliminary findings (team members expected to be in Kyiv);
- Presentation of preliminary findings (team members expected to be in Kyiv);
- Report writing; and
- Finalization of the report and its submission.

Deliverables

- The final Report on Aid Coordination and Management in Ukraine is expected to be finalized and submitted to UN Resident Coordinator Office by 17 June 2007;
- Final Report on Aid Coordination and Management in Ukraine, consisting of two parts – (1) situation analysis and (2) recommendations for enhanced aid coordination/management and harmonization of donor activities/programmes;
- The preliminary findings of the Assessment Team will be presented to the representatives of Government and donors during a workshop/roundtable in Kyiv;
- An outline of the Report will be submitted to the Government of Ukraine and UN for consideration and approval; and
- The main text should not exceed 30 pages (single-spaced), excluding annexes, bibliography and other supporting attachments and will be submitted in full draft at the end of the mission. The final document should be submitted no later than one week after receiving comments on the final draft.

Organizational Setting

The Assessment Team will be based in the UN House hosted by the UN Resident Coordinator Office. The Team will work closely with the staff of the DCITA and the Ministry of Economy in general as well as liaise and network with other relevant Government and non-Government actors, multi- and bilateral development agencies active in Ukraine.

Team profile

Composition will include external/independent experts, both local and international, as well as experts of the Government of Ukraine. The United Nations and donors may also provide their own experts for the mission.

The Team will include experts in:

- Paris Declaration and its implementation on the country level (international expert);
- public service and administrative reform (international / local expert);
- capacity development (international / local expert);
- organizational management (international / local expert);
- donor policies and practices (international/ Government expert);
- socio-economic and political situation in Ukraine and the region, and (international / local expert);
- normative frameworks in Ukraine (Government expert); and
- public financial management and budgetary support (international/local expert).

Annex D

List of Interviewees

Argo, Peter	Deputy Head, USAID
Brodskiy, Oleksandr	Director, Directorate for the Coordination of International Technical Assistance, Ministry of Economy
Daisuke, Minamino	Second Secretary, Embassy of Japan
Dener, Cem	Senior Public Sector Management Specialist, Europe and Central Asia, Public Sector & Institutional Reform, World Bank
Duflot, Remy	Head of Operation Section 3, Delegation of the European Commission
Grib, Viktoria	Aid Development Assistance Specialist, USAID
Hartley, Jeremy	Representative, UNICEF
Kazana-Wisniowiecka, Joanna	Deputy Resident Representative, UNDP
Kolosova, Viktoria	Head of Department, Department for Cooperation with International Financial Institutions, Ministry of Finance
Koval, Volodymyr	Ambassador at Large, Ministry of Foreign Affairs
Kucherenko, Elena	Director, Department for Cooperation with International Financial Organizations, Ministry of Economy
Labovitz, Jeffrey	Head, IOM Mission
Madoc, Colin	EU Advisor, Ministry of Economy
Muller, Ueli	Country Director, Swiss Development Cooperation Office
Nikitin, Volodymyr	Director, International Centre for Policy Studies
O'Donnell, Francis	UN Resident Coordinator
Pinsky, Oleksandr	Head of Directorate for International Cooperation, Secretariat of the Cabinet of Ministers of Ukraine
Pishcheyko, Vadym	Head of Department for Economic Strategy, Ministry of Economy
Pyatnitskiy, Valeriy	Deputy Minister, Ministry of Economy
Rozhkov, Oleksiy	Deputy Director, Department for European Integration, Ministry of Economy
Salomonsson, Kristina	First Secretary, SIDA Representative
Schieder, Martin	Head of Operation Section 1, Delegation of the European Commission
Seok, Kwon Dong	First Secretary, Embassy of Korea
Shakarishvili, Anna	Country Coordinator, UNAIDS
Stuppel, John	Head, DFID/ UK Embassy
Subbotin, Yuriy	Three Ones Project Manager, UNAIDS
Vatteroni, Giuseppe	EU Advisor, Ministry of Economy
Vyshnevsky, Andrii	Director of the Centre of Support to the Civil Service Reform, Main Department of Civil Service of Ukraine
Wird, Tony	Chief, GTZ Country Mission
Wong, Doris	Representative, CIDA
Yoon, Suzy	Country Manager for Ukraine, World Bank
Zahariev, Kamen	Director, EBRD

List of Acronyms

ACU	Accounting Chamber of Ukraine	MoF	Ministry of Finance
ACoU	Aid Coordination Unit	NAC	National Aid Coordinator
CIDA	Canadian International Development Agency	NC	National Coordinator
DBS	Direct Budget Support	NCU	National Coordinating Unit
DCITA	Directorate for the Coordination of International Technical Assistance	NGO	Non Governmental Organization
DFID	United Kingdom Department for International Development	ODA	Official Development Assistance
DFT	Deep Free Trade (EU program)	PIU	Project Implementation Unit
DGWs	Donor Government Working Groups	PFM	Public Financial Management
EU	European Union	Sida	Swedish International Development Agency
EBRD	European Bank for Reconstruction and Development	SDC	Swiss Development Cooperation
EC	European Commission	SWAp	Sector Wide Approach
ENPI	European Neighborhood Partnership Instrument	TOR	Terms of Reference
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit	UN	United Nations
IFIs	International Financial Institutions	UNDP	United Nations Development Programme
IOM	International Organization for Migration	UNICEF	United Nations Children's Fund
KRU	Department of Control and Revision	UNAIDS	United Nations Joint Programme on AIDS
MoE	Ministry of Economy	UN RCO	UN Resident Coordinator Office
		USAID	U.S. Agency for International Development
		WB	World Bank
		WTO	World Trade Organization

Capacity Assessment of Aid Effectiveness, Coordination and Management in Ukraine.
A joint initiative of the Ministry of Economy of Ukraine and the United Nations.
December 2007

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