

INTRODUCTION

WITH A POPULATION OF 47 MILLION, Ukraine has a gross national income (GNI) of USD 1 950 per capita. According to research conducted in the fourth quarter of 2007, 2.3% of the population lived below the two-dollars-per-day threshold. Net official development assistance (ODA) to Ukraine in 2006 was USD 484 million; this accounted for less than 1% of GNI. Ukraine has endorsed the Paris Declaration on Aid Effectiveness.

This is the first time that Ukraine has taken part in the Paris Survey. Thus, for most of the indicators, 2010 targets will be derived from the results of the 2008 Survey. Sixteen donors have responded to the 2008 Survey; together, they provided 63% of the country's ODA.

DIMENSIONS	2007	CHALLENGES	PRIORITY ACTIONS
Ownership	Low	Weak link between national strategies and budget process	Establish a multi-year budgeting framework that integrates with national strategies
Alignment	Low-Moderate	Limited used of national systems, low reporting of aid in budget	Step up donor use of public financial management systems; improve data on aid disbursements
Harmonisation	Low-Moderate	Limited use of programme-based approaches	Explore use of sector-wide approaches
Managing for results	Low	Most elements of results-based monitoring framework do not exist	Establish national monitoring and evaluation framework; improve stakeholder participation
Mutual accountability	Low	Lack of formal mechanism for mutual accountability	Establish mutual accountability mechanism focused on Ukrainian priorities

OVERVIEW

Box 51.1:

Challenges and priority actions

OWNERSHIP

OWNERSHIP IS CRITICAL TO ACHIEVING DEVELOPMENT RESULTS and is central to the Paris Declaration on Aid Effectiveness. Aid is most effective when it supports a country-owned approach to development; aid is less effective when countries feel that aid policies and approaches are driven by donors that provide assistance. In the context of the Paris Declaration, ownership specifically concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country.

INDICATOR 1

Do countries have operational development strategies?

Ownership has many dimensions. Indicator 1 – assessed as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead* – provides an entry point to the issue. The World Bank assesses the operational value of a country's development strategy and policy against three criteria, all of which are essential features of any serious effort to harness domestic and external resources for development purposes: the existence of an authoritative, country-wide development policy which clearly identifies priorities and is well costed.

The World Bank rates the operational value of a country's development strategy against a five-point scale running from A (highest score) to E (lowest score). The Paris Declaration 2010 target is to raise, to at least 75%, the proportion of partner countries having operational development strategies – *i.e.* meriting a rating of A or B.

Ukraine does not belong to the group of International Development Aid (IDA) recipients for which World Bank conducts the Aid Effectiveness Review. Thus, it did not receive a World Bank rating for the 2008 Survey and no 2010 target was set for Indicator 1. The qualitative response to 2008 Survey will be used to inform discussion of this indicator.

Despite frequent government changes and significant political volatility in the past decade, the basic vision of economic development for Ukraine is shared broadly amongst all main political forces. The development vision includes a commitment to closer integration with Europe and with the world economy at large (exemplified by the progress made in accession to the World Trade Organization), and to deepening structural reforms as the key to sustained economic growth. This basic vision has survived the frequent changes in government since 2000, and is reflected in the sequence of government programmes adopted since the "European Choice" agenda launched in 2003 by former President Kuchma. The current government programme "Ukrainian Breakthrough: For People not Politicians" provides a medium-term plan for 2008-12 and focuses on improving the living standards of its population.

Several challenges have been identified for Ukraine's national development strategies. The agenda is extensive in its coverage and broad in its ambition, but the programme lacks prioritisation and sequencing of measures. In several areas, it remains somewhat vague. Some measures would require preparatory work and additional budgetary resources; thus, the annual plans based on the programme would need to be fully costed and made consistent with the budget. The Cabinet of Ministers designates targeted programmes annually, reflecting an implicit government-wide strategy of sorts. However, these are not costed for multi-year periods or well integrated into decision making. Some ministries, such as transport and industry, have begun to develop multi-year sector strategies.

National development strategies are also poorly linked to the budget. Budget discussions tend to focus on negotiating budget shares, rather than on competing policies and priorities. The current budget process does not have a well-integrated, multi-year perspective in fiscal planning. The Ministry of Economy (MoE) is responsible for the developing the multi-year economic and social plans, but this is not fully implemented nor integrated with the budget process.

In 2002, the Ministry of Finance (MoF) introduced programme budgets and is now working to improve their use. A more systematic approach to multi-year budgeting and better integration of strategic programmes into annual budgeting would make these budgets more policy-based. The programme would also benefit from the elaboration of medium-term outcome indicators to monitor implementation. The introduction and refinement of programme and performance budgeting, and development of a public finance reform strategy, indicate Ukraine's active interest in improving its operational development strategies. ■

ALIGNMENT

FOR AID TO BE EFFECTIVE, it must be aligned with national development strategies, institutions and procedures. The Paris Declaration envisions donors basing their support fully on country partner aims and objectives. Indicators 2 through 8 examine several dimensions of aid to assess the degree to which partner countries and donors achieve alignment.

Ukraine's ratings for alignment reveal that serious effort is needed across the board if the 2010 targets for alignment are to be met.

BUILDING RELIABLE COUNTRY SYSTEMS

Indicator 2 covers two aspects of country systems: public financial management (PFM) and procurement. In each case, the focus is on the degree to which these systems adhere to broadly accepted good practices – or to which there is in place a reform programme to promote improved practices. If countries have reliable systems, donors will be encouraged to use such systems for the delivery and management of aid. This helps to align aid more closely with national development strategies and enhances aid effectiveness.

Indicator 2a of the Paris Declaration assesses the degree to which partner countries either have public financial management (PFM) systems that are in line with broadly accepted good practices or have credible reform programmes in place to establish reliable PFM systems. The assessment is based on the World Bank's Country Policy and Institutional Analysis (CPIA) score for the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong) with half-point increments. To score highly, a country needs to meet all three of the following criteria: a comprehensive and credible budget linked to policy priorities; effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and, timely and accurate accounting and fiscal reporting, including timely and audited public accounts. The 2010 target is that each country will move up at least one measure (*i.e.* 0.5 points) on the CPIA scale for measuring the quality of PFM systems.

Ukraine did not receive a CPIA score from the World Bank for the 2008 Survey, and therefore has no target for 2010. As with Indicator 1, the 2008 Survey results will be used to inform discussion of Indicator 2a.

INDICATOR 2a

How reliable are country public financial management systems?

Enhancing the transparency, efficiency and effectiveness of public financial management (PFM) is an important element of the government's institutional modernisation plan and has been in the agenda of successive governments since 2000. Important progress has been made on several fronts: establishment of a treasury system; abolishment of central bank direct financing of the government; adoption of a new budget code and budget classification system; creation of internal audit function; and improved access to fiscal information.

The current government continued this commitment to PFM reform and to implementing budget reforms to improve transparency, accountability and efficiency. It has already started to introduce performance-based budgeting, public financial control and accounting reforms. In line with these objectives, the government approved a White Paper on Internal Financial Control (in 2005) and the Concept of Local Budget Reform (in 2007). The MoF is in the process of developing a PFM Reform Strategy, based on the more detailed strategies and action plans of the major players within the PFM system. The MoF is also drafting the Tax Code and amendments to the Budget Code.

Despite significant improvements in PFM, large capacity-building needs remain in both the MoF and other entities that are part of the public expenditure cycle, particularly in terms of credibility, certain dimensions of comprehensiveness and reporting, predictability and execution of budget. Weaknesses remain in areas such as debt management, internal financial control and consistency of the budget with medium-term strategic priorities. Fiscal management at the central government level in Ukraine remains fragmented. The government plans to tackle these challenges through several capacity-building initiatives in partnership with donors.

INDICATOR 2b

How reliable are country procurement systems?

At the time of the 2006 Baseline Survey, no mechanism was in place to systematically assess and quantify the quality of procurement systems in partner countries. Thus, it was impossible to set country-level targets on progress towards Indicator 2b.

No score was available for the 2008 Survey on the quality of Ukraine's procurement systems; thus, no 2010 target is set. Serious weaknesses remain in the public procurement system, stemming from a series of amendments (adopted in 2004-06) to the public procurement law (PPL). Until 2004, the legal framework for procurement was largely in line with the international standards: it established sound and credible institutional structure; gave responsibility for public procurement to the government central authorised agency; and provided an independent mechanism for supervision of public procurement separate from the procurement management function.

Unfortunately, subsequent amendments to the PPL have seriously diluted and fragmented government procurement authority. Important functions have been transferred from the authorising agency within the MoE to a non-governmental organisation (NGO), the Center for Tender Procedures and Business Planning. This NGO is not subject to the same controls routinely imposed on the public administration bodies. Moreover, a fully decentralised public procurement system has created significant capacity problems among the procuring entities. In addition, a shift of procurement oversight responsibility from the authorising agency to the Department of Audit and Review (KRU) in the MoF and to the Accounting Chamber has created a conflict of interests: the bodies that supervise procuring entities are now also responsible for auditing these entities. In 2008, the parliament cancelled the current PPL: this may be a first step to improving the legal framework governing public procurement in Ukraine.

ALIGNING AID FLOWS ON NATIONAL PRIORITIES

Comprehensive and transparent reporting on aid, and how it is used, is an important means of ensuring that donors align aid flows with national development priorities. The degree to which development assistance to the government sector is fully and accurately reflected in the budget provides a useful indication of the degree to which serious effort is made to connect aid programmes with country policies and processes. It also allows partner country authorities to present accurate and comprehensive budget reports to their parliaments and citizens.

Indicator 3 is a proxy for alignment. It measures the percentage of aid disbursed by donors to the government sector that is included in the annual budgets for the same fiscal year. The indicator is a joint measure of two components: the degree to which donors report aid flows comprehensively to partner countries; and the degree to which partner countries accurately record aid.

INDICATOR 3

	Government budget estimates of aid flows for 2007 (USD m) a	Aid disbursed by donors for government sector in 2007 (USD m) b	2007*	
			c = a/b	c = b/a
Canada	0	0	--	
Denmark	0	1	0%	
European Commission	6	61	9%	
Germany	0	2	0%	
Global Fund	0	0	--	
IMF	0	0	--	
IOM	0	14	0%	
Japan	2	5	42%	
Norway	0	1	0%	
Poland	0	3	0%	
Sweden	0	0	--	
Switzerland	0	2	0%	
Turkey	0	1	0%	
United Kingdom	0	7	0%	
United Nations	1	27	4%	
World Bank	173	117		68%
Average donor ratio	--	--	10%	
Total	182	242	75%	

* Ratio is c=a/b except where government budget estimates are greater than disbursements (c=b/a).

TABLE 51.1:
Are government budget
estimates comprehensive
and realistic?

The final figure highlights any discrepancy between the government's budget estimates and actual disbursements by donors. The discrepancy (or gap) can be in either direction: budget estimates can be higher or lower than disbursements by donors. In order to have a single measure of discrepancy under 100%, the ratio is inverted when budget estimates are higher than donor disbursements. The 2010 target is to halve the proportion of aid flows to the government sector that is not currently reported on government budget(s), ultimately arriving at a point where at least 85% of aid is reported on the budget.

The 2008 Survey results for Ukraine show that 75% of total aid disbursed was recorded in the national budget. For countries participating in the 2008 Survey for the first time, the Paris Declaration 2010 target is to reduce by 30% the proportion of aid flows to the government sector not reported on the government budget. The 2010 target for Ukraine is to have 85% of aid to the government sector recorded on budget. However, the high baseline ratio for Ukraine is influenced by two factors: a high degree of under-inclusion of aid in the budget on the one hand, and the case of over-estimation of actual disbursement on the part

of a major donor, the World Bank. This may also reflect the difference in calculating aid on budget as the World Bank's figure covered disbursements from investment projects only when they are included in its second development policy loans. The accuracy of the budget is, in some respects, more closely measured by the simple (unweighted) average donor ratio. The accuracy of budget reporting of disbursements for the average donor is only 10%. This suggests that significant efforts – by both the government and donors – are needed for Ukraine to meet its 2010 target.

The gap between what donors disburse and what is included in annual budget estimates stems mainly from two sources: late disbursements carried over to 2008 and poor information capture. External aid management and co-ordination in Ukraine is fragmented across three main agencies: 1) the Cabinet of Ministers and the first deputy prime minister are responsible for overall assistance co-ordination; 2) the MoE is responsible for overall co-ordination of external assistance; and 3) the MoF has the main role in financial planning, management and monitoring. This structure is further complicated by three agencies within MoE that are also involved in co-ordinating external assistance: the Directorate for Co-ordination of International Technical Assistance (DCITA); the Directorate for Co-operation with the European Union; and the Directorate for Co-operation with the International Financial Institutions. There seems to be no internal co-ordination mechanism amongst these three departments or amongst the various line ministries. To address this issue, the government has issued several decrees to develop a single system for aid monitoring and to create a co-ordinator position for all international aid.

Another challenge is that some donors provide extensive information and agree on all components of a specific aid programme while others have varying degrees of dialogue and disclosure regarding their disbursements. The government has taken several steps to implement more integrated co-operation mechanisms and to build capacity of national systems for accurate recording of aid data. For example, in 2005 and 2006, the government adopted three-year national strategies regarding international assistance and international financial organisations: these strategies clearly define the main principles and priorities for foreign aid involvement. Furthermore, co-operation with key donors – including Sweden, the European Bank for Reconstruction and Development (EBRD) and the World Bank – has improved through re-negotiated individual agreements.

CO-ORDINATING SUPPORT TO STRENGTHEN CAPACITY

Capacity constraints significantly undermine the ability of partner countries to capture, co-ordinate and utilise aid flows more effectively. Under the Paris Declaration, donors committed to providing technical co-operation in a manner that is co-ordinated with partner country strategies and programmes. This approach aims to strengthen capacities while also responding to the needs of partner countries. Likewise, there is greater recognition that successful capacity building is endogenous – *i.e.* is led by the partner country. To this end, the partner country defines clear objectives to ensure that existing capacities are used effectively and that external support is harmonised within this framework.

Indicator 4 focuses on the extent to which donor technical co-operation – an important input into capacity development – is moving towards this country-led model. It measures the degree of alignment between donor technical co-operation and the partner country's capacity development needs and strategies. The Paris Declaration 2010 target is that 50% of technical co-operation flows are implemented through co-ordinated programmes that are consistent with national development strategies.

The 2008 Survey for Ukraine shows that 35% of technical assistance was provided in a co-ordinated manner. This is within reach of the Paris Declaration 2010 target of 50%. At present, Ukraine lacks a unified legal framework to set development priorities and co-ordinate assistance provided by the donors. However, the government has identified capacity building as a key issue. Therefore, strengthening of the DCITA's capacity (notably operational capacity including work organisation, human resource processes and skills development) is of critical importance. Over the past several years, the UN has been active in helping the DCITA to improve donor co-ordination. However, the process is still at an early stage.

INDICATOR 4

	Co-ordinated technical co-operation (USD m) a	Total technical co-operation (USD m) b	2007 c = a / b
Canada	12	14	86%
Denmark	0	0	--
European Commission	0	69	0%
Germany	0	1	0%
Global Fund	0	0	--
IMF	0	0	--
IOM	14	14	100%
Japan	1	1	100%
Norway	1	2	68%
Poland	0	2	0%
Sweden	0	17	0%
Switzerland	0	5	0%
Turkey	2	2	97%
United Kingdom	0	6	0%
United Nations	25	26	96%
World Bank	3	9	28%
Total	58	168	35%

TABLE 51.2:
How much technical
co-operation is co-ordinated
with country programmes?

USING COUNTRY SYSTEMS

INDICATOR 5

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the partner's long-term capacity to develop, implement and account for its policies – to both its citizens and its parliament. The Paris Declaration encourages donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. In this respect, Indicator 5 is directly linked to Indicator 2 on the quality of PFM and procurement systems, and measures the use of both.

Indicator 5a measures the extent to which donors use partner country PFM systems when providing funding to the government sector. It measures the volume of aid that uses partner country PFM systems (budget execution, financial reporting, and auditing) as a percent of total aid disbursed to the government sector. The 2010 target is relative to Indicator 2a on the quality of PFM systems.

TABLE 51.3:
How much aid for
the government sector
uses country systems?

	Aid disbursed by donors for government sector (USD m) a	Public financial management (PFM)				Procurement	
		Budget execution (USD m) b	Financial reporting (USD m) c	Auditing (USD m) d	2007	Procurement systems (USD m) e	2007
					avg (b,c,d) / a		e / a
Canada	0	0	0	0	--	0	--
Denmark	1	0	0	0	0%	0	0%
European Commission	61	0	0	0	0%	0	0%
Germany	2	0	0	0	0%	0	0%
Global Fund	0	0	0	0	--	0	--
IMF	0	0	0	0	--	0	--
IOM	14	0	0	0	0%	0	0%
Japan	5	2	2	2	36%	2	36%
Norway	1	0	0	0	0%	0	0%
Poland	3	0	0	0	0%	0	0%
Sweden	0	0	0	0	--	0	--
Switzerland	2	0	0	0	0%	0	0%
Turkey	1	0	0	0	0%	1	100%
United Kingdom	7	0	0	0	0%	0	0%
United Nations	27	0	1	1	1%	1	2%
World Bank	117	1	0	0	0%	0	0%
Total	242	3	2	2	1%	4	2%

Indicator 5b measures the volume of aid, as a percent of total aid disbursed to the government sector, that uses partner country procurement systems. The 2010 target is relative to Indicator 2b; thus, targets are indicated only for those countries that established scores for Indicator 2b in the context of the 2006 Baseline Survey.

The quality of Ukraine's national PFM and procurement systems has not been rated; thus, no 2010 targets are set for the use of either of these systems.

The 2008 Survey for Ukraine reported that only 1% of aid makes use of PFM systems, reflecting the perceived weakness of such systems. Most donors use their own financial management systems, which operate outside of Ukraine's country systems. The dual system operates through all stages of the project financial management cycle: budgeting, payment authorisation, funds flow and payments, accounting, reporting and auditing. It is further complicated by various special procedures such as special authorisations by the MoF required for each payment and co-signature of the MoF on each check. An *ad hoc* reporting system – with monthly reporting by project entities to the MoF on project expenditures – is currently used to obtain information for budget execution reporting.

Improvements in Ukraine's PFM system over the past few years, most notably the installation of a comprehensive treasury payment and accounting system, should provide a platform for increased use of the system. In addition, the European Commission is promoting the use of country systems by preparing three budget support operations. Country procurement systems will be used by transferring assistance funds directly to the State Treasury to procure equipment, work and services. Budget support is foreseen in the energy sector and in support of measures to facilitate trade.

At present, only 2% of aid makes use of Ukraine's procurement systems. As mentioned in discussion of Indicator 2b, the public procurement system is highly flawed. The World Bank is currently working with the government to discuss implementation of reforms.

AVOIDING PARALLEL IMPLEMENTATION STRUCTURES

When providing development assistance, some donors establish specific project implementation units (PIUs), *i.e.* dedicated management units designed to support development projects or programmes. A PIU is said to be "parallel" when it is created at the behest of the donor and operates outside existing country institutional and administrative structures.

In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, in the long run, parallel PIUs often tend to undermine national capacity building efforts, distort salaries and weaken accountability for development.

To make aid more effective, the Paris Declaration encourages donors to "avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes." Indicator 6 is a count of the number of parallel PIUs being used in partner countries. The 2010 target is to reduce by two-thirds the stock of parallel PIUs in each partner country.

The 2008 Survey reports there are 46 parallel PIUs in place in Ukraine. The 2010 target for Ukraine is to reduce the stock of parallel PIUs to 28 (a two-fifths reduction).

Donors typically rely on parallel PIUs because of a perceived lack of capacity within the government agency to effectively implement projects. In some cases, parallel PIUs are used to service the fiduciary requirements of donors (such as financial management and procurement). These are typically established outside of the mainstream organisational units and staffed by consultants. These parallel PIUs tend to be "capacity depleting" for the implementing agencies and are also often associated with lack of government ownership of donor-funded projects.

INDICATOR 6

TABLE 51.4:
How many PIUs are parallel
to country structures?

	2007 (units)
Canada	8
Denmark	0
European Commission	0
Germany	0
Global Fund	0
IMF	0
IOM	0
Japan	1
Norway	1
Poland	0
Sweden	4
Switzerland	3
Turkey	1
United Kingdom	0
United Nations	28
World Bank	0
Total	46

PROVIDING MORE PREDICTABLE AID

INDICATOR 7

For many countries, development assistance constitutes a vital source of revenue and resources. Being able to predict aid disbursements – in terms of both how much aid will be delivered and when – is as an important factor in the ability of countries to manage public finances and undertake realistic planning for development. It is particularly crucial to enabling partner countries to implement medium- to long-term development plans and to optimise the allocation of resources within and across sectors. In this regard, the Paris Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework, and to disburse aid in a timely and predictable fashion according to agreed schedules.

Indicator 7 examines in-year predictability of aid to the government sector, measuring the proportion of planned disbursements (as reported by donors) that are recorded by governments in the national accounting system as actually disbursed. Indicator 7 assesses predictability from two angles. The first angle is the combined ability of donors and government to disburse aid on schedule. The second is the ability of donors and government to record comprehensively disbursements made by donors to the government sector.

TABLE 51.5:
Are disbursements
on schedule and recorded
by government?

	Disbursements recorded by government in 2007 (USD m) a	Aid scheduled by donors for disbursement in 2007 (USD m) b	Aid disbursed by donors for government sector in 2007 (USD m) for reference only	2007*	
				c = a / b	c = b / a
Canada	0	0	0	--	
Denmark	0	1	1	0%	
European Commission	1	88	61	1%	
Germany	0	9	2	0%	
Global Fund	0	0	0	--	
IMF	0	0	0	--	
IOM	0	14	14	0%	
Japan	2	5	5	38%	
Norway	0	0	1	--	
Poland	0	5	3	0%	
Sweden	0	18	0	0%	
Switzerland	0	3	2	0%	
Turkey	0	0	1	0%	
United Kingdom	0	0	7	--	
United Nations	0	35	27	0%	
World Bank	173	117	117		67%
Average donor ratio	--	--	--	10%	
Total	176	295	242	60%	

* Ratio is c=a/b except where disbursements recorded by government are greater than aid scheduled for disbursement (c=b/a).

Indicator 7 is designed to encourage progress in relation to both angles, with the aim of gradually closing the predictability gap – by one-half – by 2010. The ultimate goal is to improve not only the predictability of actual disbursements, but also the accuracy of how disbursements are recorded in government systems – an important feature of ownership, accountability and transparency.

In Ukraine, donors scheduled USD 295 million for disbursement in 2007 and actually disbursed – according to their own records – slightly less than expected (USD 242 million). The discrepancy varies considerably among donors and is mainly due to late disbursements carried over to 2008 and to delays in implementing programmes.

In 2007, 60% of aid scheduled for disbursement was recorded in government accounts as disbursed within the same fiscal year. This proportion would have been even lower except for substantial over-recording in the accounts of funds scheduled and disbursed by the World Bank. A significant proportion of disbursements by donors other than the World Bank were not captured, either because they were not appropriately registered by donors or because they were inaccurately recorded by government.

Looking more closely at individual donor results, aid predictability is actually worse at only 10% for the average donor ratio. This signals that individual relationships between donors and government need more work in terms of predictability. For countries participating in the 2008 Survey for the first time, the Paris Declaration 2010 target is to reduce by 30% the proportion of aid not disbursed within the fiscal year for which it was scheduled. Thus, the target for Ukraine is 72%.

Challenges in closing the predictability gap result from several issues. First, there is no single database or information source that systematically captures and reports on all external development assistance. Thus, consolidated information is not available on total flows from external development assistance. Furthermore, donors provide little financial information to Ukraine for budgeting and reporting on project or programme aid. Some donors disburse project aid directly to implementing agencies, which is not recorded by the government in the national budget. To address these issues, the government is engaging in dialogue with the donor community on strategies to adapt Ukrainian accounting systems within the framework of improving the overall PFM. In addition, the medium-term Strategy for Attraction of International Technical Assistance has been drafted and agreed with regional authorities. Increased sector budget support should also help to improve predictability.

UNTYING AID

Aid is said to be “tied” when it is provided on the condition that the recipient country will use it to purchase goods and services from suppliers based in the donor country. Experience shows that aid with such conditions attached increases the costs of goods and services provided to partner countries; it also increases the administrative burdens on both donors and partners. By contrast, untied aid helps build a country’s capacity to provide goods and services.

Country figures for untying aid are based on voluntary self-reporting by donors that are members of the OECD Development Assistance Committee (OECD-DAC). The 2010 target is to continue progress towards untying aid over time.

According to OECD data covering 97% of aid to Ukraine, 96% of aid was untied in 2006. The 2010 target calls for continued progress over time. ■

INDICATOR 8

How much aid is untied?

HARMONISATION

DECADES OF DEVELOPMENT EXPERIENCE show that poor co-ordination of aid increases the cost for both donors and partner countries, and significantly reduces the added value of aid. Harmonisation of aid delivery procedures and adoption of common arrangements help reduce duplication of effort and lower the steep transaction costs of managing aid. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) and the extent to which donors and partner countries conduct joint missions and share analysis.

In 2006, the MoE and donors jointly initiated the Donor-Government Working Group (DGWG) as a first step to improve co-ordination of the external assistance agenda in Ukraine. Significant efforts are still needed in all areas of harmonisation for Ukraine to meet the Paris Declaration 2010 targets.

USING COMMON ARRANGEMENTS

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. A sound mechanism for aid co-ordination can be described as one that builds on shared objectives and that reconciles, in a constructive manner, the various interests of stakeholders.

INDICATOR 9

TABLE 51.6:
How much aid is
programme based?

	Programme-based approaches (PBAs)			Total aid disbursed (USD m) d	2007 e = c / d
	Budget support (USD m) a	Other PBAs (USD m) b	Total (USD m) c = a + b		
Canada	0	0	0	15	0%
Denmark	0	0	0	3	0%
European Commission	0	0	0	69	0%
Germany	0	0	0	8	0%
Global Fund	0	0	0	27	0%
IMF	0	0	0	0	--
IOM	0	14	14	14	100%
Japan	0	0	0	5	0%
Norway	0	1	1	3	16%
Poland	0	0	0	6	0%
Sweden	0	0	0	17	0%
Switzerland	0	0	0	5	0%
Turkey	0	1	1	2	60%
United Kingdom	0	0	0	11	0%
United Nations	0	9	9	39	24%
World Bank	0	1	1	120	1%
Total	0	26	26	345	8%

Indicator 9 assesses the degree to which donors work together by measuring the proportion of total ODA disbursed within PBAs. In practice, there are many different modalities for implementing PBAs, which operate at various levels. At one level, the partner country is responsible for defining clear, country-owned programmes (*e.g.* sector policy) and establishing a single budget framework that captures all resources (both domestic and external).

At the second level, donors are responsible for taking steps to use local systems for programme design and implementation, financial management, monitoring and evaluation. Finally, partner countries and donors are jointly responsible for donor co-ordination and harmonisation of donor procedures. The 2010 target is that 66% of aid flows are provided in the context of PBAs.

The proportion of aid using PBAs – and thus common procedures – was only 8% in 2007, far below the 2010 target of 66%. Sector support accounts for all of the PBAs in Ukraine. The European Union is currently establishing a framework for sector budget support, which could provide an opportunity for donor collaboration and potentially evolve into a larger sector-wide approach (SWAp) in the coming years. However, unless donors and government continue to explore the possibility of developing other PBAs, reaching the 2010 target seems unrealistic.

CONDUCTING JOINT MISSIONS AND SHARING ANALYSIS

One of the most frequent complaints of partner countries is that donors make too many demands in relation to their limited resources: country authorities spend too much time meeting with donor officials and responding to their many requests. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *i.e.* that the burden of such work is shared.

Indicator 10 measures the extent to which donors are merging their missions (Indicator 10a) and analytical work (Indicator 10b) at the country level – either with country partner authorities or amongst the donor community (or both). It calculates the proportion of missions to the country undertaken jointly (*i.e.* by more than one donor) and the share of country-analysis exercises undertaken on a joint or co-ordinated basis. The 2010 target is that 40% of donor missions to the field are conducted jointly and that 66% of country analytical work is carried out jointly.

INDICATOR 10a

	Co-ordinated donor missions* (missions) a	Total donor missions (missions) b	2007 c = a / b
Canada	0	8	0%
Denmark	0	1	0%
European Commission	2	32	6%
Germany	0	10	0%
Global Fund	0	4	0%
IMF	8	8	100%
IOM	2	2	100%
Japan	0	2	0%
Norway	1	3	33%
Poland	0	1	0%
Sweden	2	12	17%
Switzerland	1	3	33%
Turkey	1	1	100%
United Kingdom	2	10	20%
United Nations	22	141	16%
World Bank	8	54	15%
Total	37	292	13%

TABLE 51.7:
How many donor missions
are co-ordinated?

* The total of co-ordinated missions has been adjusted to avoid double-counting. A discount factor of 35% is applied.

The 2008 Survey reports that donors conducted a total of 292 missions to Ukraine, with only 13% of these being co-ordinated. This figure is well below the 2010 target of 50% for all countries. Ukraine currently lacks a mechanism for co-ordinating donor activities, but the DGWG is making initial efforts to share ongoing and planned work by donors. The UN has the largest number of missions and could help Ukraine make substantial progress on Indicator 10 by increasing co-ordination of missions within the UN system (as has been done in other countries). The European Commission is meeting regularly with EU Member States active in Ukraine to co-ordinate external assistance. For example, European Commission and Sweden are planning to co-ordinate efforts in the area of the environment in 2009.

INDICATOR 10b

Analytical work in Ukraine is increasingly carried out in partnership. Data for Indicator 10b show that 40% of analytical work is co-ordinated, which is within reach of the 2010 target of 66%. Improvement of the DGWG should continue, particularly in regards to some sub-groups that are not yet activated. The need to improve sector strategies in sub-groups is also important. ■

TABLE 51.8:
How much country analysis
is co-ordinated?

	Co-ordinated donor analytical work* (analyses) a	Total donor analytical work (analyses) b	2007 c = a / b
Canada	1	8	13%
Denmark	0	1	0%
European Commission	0	7	0%
Germany	0	0	--
Global Fund	0	0	--
IMF	2	3	67%
IOM	12	12	100%
Japan	0	0	--
Norway	0	0	--
Poland	0	1	0%
Sweden	0	4	0%
Switzerland	0	1	0%
Turkey	0	0	--
United Kingdom	0	3	0%
United Nations	38	61	62%
World Bank	3	4	75%
Total	42	105	40%

* The total of co-ordinated analytical work has been adjusted to avoid double-counting. A discount factor of 25% is applied.

MANAGING FOR RESULTS

THE PARIS DECLARATION CALLS ON donors and partner countries to make a joint commitment to managing for development results – *i.e.* to manage resources according to desired results. This implies defining desired results and measuring progress toward them, as well as using information on results to improve decision making and performance. It also implies strengthening capacity to undertake such management and helping to increase the demand for a focus on results (*i.e.* adopt a results-based monitoring framework).

Indicator 11 utilises data collected as part of the World Bank’s review on *Results-Based National Development Strategies: Assessments and Challenges Ahead*. The review focuses on three particular aspects of a robust results-based monitoring framework: the quality of the information generated; stakeholder access to the information; and the extent to which such information is utilised within a country-level monitoring and evaluation system.

The assessments are expressed in scores running from A (high) to E (low), with B representing a “largely developed results-based monitoring framework.” The 2010 target is to reduce by one-third the proportion of countries lacking transparent and monitorable results-based monitoring frameworks (*i.e.* reduce by one-third the number of countries not attaining at least a B rating).

Ukraine did not receive a rating from the World Bank for the 2006 Baseline Survey or the 2008 Survey, and therefore has no 2010 target for Indicator 11. The qualitative response to the 2008 Survey will be used to inform discussion of this indicator.

Ukraine has begun to apply a results-based monitoring framework in budget planning and expenditure management (for example, through the introduction and refinement of programme and performance budgeting, and the development of a PFM reform strategy). Addition of a more systematic, multi-year perspective and better integration of strategic programmes into annual budgeting would further enhance results-based budgeting.

In addition, the government has made efforts to improve relationships with civil society. Representatives of civil society groups are more often included in working groups and public councils at national and local levels. However, no clear criteria or rules were defined for the inclusion of civil society representatives in “participative” mechanisms established by the government. In most cases, their selection depends on personal relations and initiatives of public officials. At present, public officials do not encourage or support public involvement in policy design and implementation. ■

MUTUAL ACCOUNTABILITY

THE PARIS DECLARATION RECOGNISES that for aid to be truly effective, stronger and more balanced accountability mechanisms are required at all levels. In particular, aid is more effective when both donors and partner country governments are accountable – to their respective publics and to each other – for the use of resources and management to achieve development results. The Paris Declaration calls for donors and partner countries to jointly assess (through existing country-level mechanisms) mutual progress in implementing agreed commitments on aid effectiveness, including commitments made under the Paris Declaration.

INDICATOR 11

Do countries have results-based monitoring frameworks?

INDICATOR 12

Do countries have reviews of mutual accountability?

Indicator 12 is concerned with the specific question of whether there is a country-level mechanism for mutual assessment of progress on the partnership commitments arising from the Rome or Paris Declarations, or from local harmonisation and alignment plans. The 2010 target is for all partner countries to have in place such mechanisms.

No mechanism for mutual accountability currently exists in Ukraine. However, annual donor conferences are held, at which the government reports on the work done, successes achieved, existing constraints and future plans in co-operation with donors. The MoE also reports quarterly to donors on progress in co-ordinating its activities and the activities of thematic groups created within the framework of the DGWG. In addition, the European Commission is aiming to strengthen monitoring exercises in co-operation with the government. For example, in the context of monitoring the European Integration process, monitoring is extended to two pilot ministries selected by the government. One of Ukraine's main challenges in fulfilling the principles of the Paris Declaration is that not all donors align their aid to government priorities. This results in less transparent development co-operation. ■

PROGRESS SINCE 2005 AND PRIORITIES FOR 2010

UKRAINE HAS NOT YET MET any of its Paris Declaration 2010 targets. The results for all indicators are mixed: progress has been made against some indicators; significant gaps remain for others. Substantial effort is required by the government and donors in five areas: improving use of country systems; reducing parallel PIUs; using common arrangements and joint missions; applying a results-based monitoring frameworks; and enhancing mutual accountability. In order to reach the 2010 targets, Ukraine should continue its reforms for institutional development and improving capacity; donors must engage in increased alignment and harmonisation activities. ■

SUMMARY TABLE 51.9

INDICATORS		2007	2010 TARGET
1	Operational development strategies	B	A
2a	Reliable public financial management (PFM) systems	4.0	4.5
2b	Reliable procurement systems	Not available	Not applicable
3	Aid flows are aligned on national priorities	75%	85%
4	Strengthen capacity by co-ordinated support	35%	50%
5a	Use of country PFM systems	1%	No target
5b	Use of country procurement systems	2%	Not applicable
6	Strengthen capacity by avoiding parallel PIUs	46	28
7	Aid is more predictable	60%	72%
8	Aid is untied	96%	More than 96%
9	Use of common arrangements or procedures	8%	66%
10a	Joint missions	13%	40%
10b	Joint country analytical work	40%	66%
11	Results-based monitoring frameworks	B	A
12	Mutual accountability	No	Yes

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ACRONYMS

DCITA	Directorate for Co-ordination of International Technical Assistance
DGWG	Donor-Government Working Group
GNI	gross national income
MDG	Millennium Development Goal
MoE	Ministry of Economy
MoF	Ministry of Finance
MTEF	medium-term expenditure framework
ODA	official development assistance
OECD-DAC	OECD Development Assistance Committee
PBA	programme-based approach
PFM	public financial management
PIU	project implementation units
PPL	Public Procurement Law

