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Aid Resources Management for Economic Reforms in Ukraine

Recent international surveys of the institutional capacity for aid coordination indicated a low level of effectiveness and capacity of Ukrainian authorities, first and foremost, due to the dispersed "coordination resources" and the unstructured institutional mechanism.

The study aims to analyze aid management methods and their effectiveness in Ukraine related to economic reforms, also to compile a summary review of the aid management governmental institutions in Ukraine and their aid management and donor coordination capacities and to work out recommendations to improve their performance.

The series of High Level Fora on aid effectiveness in the last decade demonstrated that the international community has become strongly committed to improving aid effectiveness for economic reforms through better coordination mechanisms. The global aid effectiveness agenda singled out that governance significantly affects the likelihood of a successful aid project, specifically, good governance is essential to ensure that aid supports home economic and democratic reforms.

Governance reforms are paramount for aid development impact in recipient countries. A rethinking of aid strategies and different approaches to aid effectiveness should be a priority issue for both – donor and recipient countries, including the priority to the demand side. A decisive shift should be made towards more transparency and selectivity in identifying effective lending modalities and appropriate sectors and recipients for funding and aid provisions. Sustainability of projects' results must be a decisive measurable indicator for evaluating projects' outcome for aid and lending projects.

Keywords: aid, donor community, recipients, economic reforms, effectiveness, coordination, development agenda, results sustainability.

Problem setting. Recent international surveys of institutional capacity for aid coordination indicated a low level of effectiveness and capacity by Ukrainian authorities. The dispersed "coordination resources" amongst different institutions, without proper interplay between them, make impossible to staff even one of the government structures with the relevant professionals, while the institutional unstructured mechanism disables the uniform government policy of aid attraction and use to reform the Ukrainian economy.

Analysis of sources. The issue is not adequately covered yet by foreign and Ukrainian researchers. Some analytical reports were published by international and international financial organizations. Among researchers investigating aid effectiveness related to economic reforms in Ukraine the following authors could be singled out: Kevin Prigmore, Leonid Kistersky, Oleksiy Plotnicov, Ugis Sics, Tetyana Lypova, Daniel Kaufmann, and Colin Maddock.

The aim of the research. To analyze aid management methods and their effectiveness in Ukraine related to economic reforms; also to compile a summary review of the aid management governmental institutions in Ukraine and their aid management and donor coordination capacities and to work out recommendations to improve their performance on the basis of the positive international experience.

The methods. The main method of the research was a dialectical method which permitted to analyze the subject issue based on its most essential characteristics. A systemic approach of the research allowed to identify major shortcomings of the

Ukrainian aid management practices and to develop practical approaches with a view of improving the situation.

The results. The donor community has been repeatedly sending to Ukraine powerful signals indicating the need to speed up domestic reforms. For this purpose the EU collectively and other donors individually proposed for Ukraine an effective instrument to support market and democracy reforms – international technical assistance (ITA), which can be a powerful tool for delivery of professional consultations and support to a transition-economy partner country to implement market and democracy reforms while taking into account positive international experience.

In the Central European countries even prior to their acceding to the EU, the ITA flows were channeled through the recipients' budgets with a small co-financing component added, funded from own budget resources. This practice has proven rather successful for achieving a synergy of efforts donors and recipients, for strengthening their accountability for resources spent and results achieved in the course of the cooperation.

Within a system of international relations, ITA plays the role of an important tool for the country's development, promoting the implementation of the institutional reforms in a recipient country as well as economic structural adjustment, development of key economic sectors, entrepreneurship support, legislation reforms and other market transformations, thus creating a basis for the inflow of investment capital to the country and further global economic interactions. ITA used to play and is still playing a significant enough role in further market transformations in the Central European countries, enabling many of them to quickly adapt to the new business context and integrate into EU.

The international surveys of institutional capacity for effective performance of the ITA coordination functions – Paris Declaration (2005) and Accra Agenda for Action (2008) indicated a low level of effectiveness and capacity by the responsible Ukrainian authorities for international aid coordination. The Ukrainian recipients are not capable as yet to efficiently communicate with donors on the basis of their complicated enough and bureaucratized procedures. The dispersed “coordination resources” amongst different institutions, without proper interplay between them, make impossible to staff even one of the current international assistance-involved government structures with the relevant-expertise professionals, while the institutional unstructured mechanism disables the uniform government policy of ITA attraction and use to reform the Ukrainian economy in terms of the European principles.

Structurally, the areas of responsibility for ITA programming, management and reporting are shared amongst different government agencies in Ukraine. The Ministry for Economic Development and Trade plays a leading role in this system – it is held responsible for programming, coordination and monitoring of the process. The National Agency of Ukraine for Civil Service is a key public authority responsible for implementing certain individual EU programmes. The Ministry of Finance (MoF) is in charge of ensuring the ITA receipt in the public finance management (PFM) area, consistency of international financial assistance with the State budget as well as for attraction of external resources. At large, in Ukraine for the time being leadership in the ITA planning and management is exercised by the donors. The Paris Declaration principles, hereunder a recipient country itself should define the strategic development priorities and donor support areas, are not realised so far in Ukraine.

Most external resources come to Ukraine through the channels of international financial institutions, providing the significant financial assistance and financing the technical assistance programmes. For the most part, the ITA share in their resources, first, is insignificant – not more than 10% and, second, ITA component, as a rule, is financed through the grants provided to them by the governments of individual developed countries for administration purposes.

The largest external funding sources for Ukraine are the World Bank Group and IMF. IMF focuses its activities around establishing the general macroeconomic principles of market economy in Ukraine, while the World Bank addresses the development of specific economic sectors.

A significant role in Ukraine's reform process is played by the Council of Europe, with its close ties with the European Commission increasing this process effectiveness. As a member-country of the European Council, Ukraine is an object of thorough monitoring by this organization. Subject to the monitoring results, the European Court of Human Rights takes the relevant decisions, while the Council of Europe can provide the political recommendations to Ukraine on the corrective measures. The Council of Europe offers to Ukraine a variety of solutions, aligned with the European standards, and encourages the country to develop its own standards. This approach essentially enhances the country's ownership in the implementation of democracy and rule-of-law reforms (in particular, legal sector reform), as well as the chances for their successful implementation.

The Donors working in Ukraine have a relatively sophisticated coordination mechanism amongst themselves.

The European Union (EU) Member States and European Commission cooperate together under the auspices of the EU Delegation as coordinator, with an official designated for improving aid effectiveness.

The UNDP coordinates all the donor community and works with the Aid Coordination and Management Departments in the Ministry of Economy and The Main Civil Service. The main donors, particularly the main 3 EU donors (EC, Germany, Sweden), meet regularly and work very closely on programming and implementation issues together. The EU group meets regularly and shares information, particularly the development of the matrix of their current and proposed projects.

There is a policy agreement amongst donors that all aid projects should fit into the European Integration strategy, particularly the Association Agenda, though this requirement is not always adhered to, particularly as some important development topics are not specifically included in the Association Agenda. The EU donor group works closely to provide bilateral aid programmes that offer synergy with the European Commission's medium term donor strategy.

Donor coordination in Ukraine has a long history stretching back 20 years. Different models have been tried – an Agency, a central Government Department, split competencies between various ministries. In recent years the donor coordination mechanism has become increasingly fragmented and non-effective, which has led to rising concerns of Donors and some Ukrainian institutions [1].

The Ministry of Economic Development and Trade is responsible within Government for the overall coordination of aid and liaising with the donor community on the aid programme.

The two main ministries for the practical coordination of aid are the MoE and the State Civil Service (for Twinning and CIB-Eastern Partnership). The Secretariat of the Cabinet of Ministers has a passive over-arching role, particularly to assure that donor programmes are in line with overall government policy and to resolve disputes between ministries.

The MoF undertakes the horizontal coordination of the financial aspects of projects, particularly budget support projects.

The current government has consolidated the aid coordination departments in the MoE and improved the administrative functions (e.g. project registration), but has not yet tackled the aid policy development issues. The MoE has undertaken a further review as part of the Public Administration Reform (July 2011) restructuring and downsizing. The President's Office is acting to link foreign aid with government economic reform policies.

The Government of Ukraine is working to become more self-reliant in the field of Aid Coordination and management in line with the Paris Declaration. A part of the strategy is to establish a framework of government –donor groups covering all sectors.

The Government-Donor Group (GDG) consists of a High-level Steering Group, four joint thematic working groups with sub thematic groups, as well as the GDG Secretariat. The GDG provides a mechanism for improving donor programmes via

meetings that are formed with the participation of representatives of Ukrainian authorities/governmental institutions and donors.

The components are:

- The High-level Steering Group is a forum at which broad strategic and problematic issues that need Governmental decisions are considered.
- Thematic groups are joint working groups on broad sector / functions based on thematic priorities defined by the Government in strategic programmes for attracting and facilitating international technical assistance and international financial institutions resources. Chairpersons of Thematic groups are heads of central executive bodies and respective representatives of donors' organizations (by consent), and meetings are held at the Ukrainian party's or donors' initiative at least twice per year or in case of a need.
- Thematic sub-groups/Sections have a similar function but are based on Specific Sectors and are chaired by (First) Deputy Ministers, heads/deputy heads of the central executive power bodies and the appropriate representatives of donors' organizations
- The Thematic sub-groups/Sections meetings are minuted and a protocol is drawn up which is sent to the Ministry of Economy of Ukraine for compilation into a pan-sector document.
- The functions of the GDG Secretariat are carried out from the Ukrainian side by a unit in the Ministry of Economy of Ukraine, responsible for international technical assistance attraction and cooperation with the international financial institutions, and from donors' side – by the UN Representative Office in Ukraine.
- Only a few thematic groups out of 17 have met, and many Ministries are awaiting the enactment of the regulation on Donor Coordination groups by the Cabinet of Ministers before establishing their thematic groups.

For the purpose of managing a thematic group, a practical body – a Donor Coordination Working Group (DCWG) could be set up with the objective of improving the effective coordination and management of programming and implementation of donor-funded activities in a given sector.

The MoF of Ukraine pioneered and started practical regular (quarterly) meetings of the established back in 2010 of the DCWG and made a noticeable progress in coordinating donor activities in the PFM sector. The DCWGs' terms of reference (ToR) are based on the intentions of the Paris Declaration, stipulating ownership and responsibility of the Government of Ukraine (GoU) with respect to the process of PFM modernization as well as at the same time emphasizing readiness of the development partners willing to get involved in this process to achieve the Declaration's provisions in terms of coordination and harmonization in their cooperation with the GoU and in their cooperation with other interested development partners.

The key tasks of the DCWG are:

- Providing information and advice for practitioners in the technical cooperation field.
- Providing guidance on future developments for donor programmes and attracting donor funds within the sector's policy framework.
- Resolving any issues arising between DCWG participants or relevant stakeholders

There are two overriding principles:

- The DCWG meetings work on consensus principles;
- The activities are focused on pragmatic, results-oriented solutions.

The current informal approach to a DCWG is an appropriate format as it minimizes administration. The formal and informal organization of the DCWG is not mutually exclusive. The current informal approach may develop into a more structured arrangement later. An important feature of the DCWG work programme is the development of concrete solutions and tools to improve the effectiveness of the aid delivering both in the field of policy development and implementation.

Coordination with other donors and international financial institutions are key to boost aid effectiveness and foster capacity building in the candidate countries and potential candidates.

In fact, international efforts to enhance aid effectiveness have already a long history. International development co-operation surged in the early 1960s amidst post-war optimism and enthusiasm and has since achieved many positive results. It is recognized as one of the key factors in advancing global development but progress has been uneven and neither fast nor far-reaching enough: lack of co-ordination, overly ambitious targets, unrealistic time- and budget constraints and political self-interest have too often prevented aid from being as effective as desired [2].

The conference of the United Nations on Development Finance in Monterey, Mexico, in 2002, provided a broad political background for strengthening the focus on aid effectiveness. The aid effectiveness agenda has been pursued at the global level through a series of High Level Forums.

Shortly after the Monterey conference the first High Level Forum (HLF) was held in Rome in 2003. The Rome HLF marked the first occasion at which the principles for aid effectiveness were outlined in a concrete declaration. The Rome Declaration listed the following priority actions:

- development assistance should be based on the priorities and timing of the countries receiving it;
- donor efforts concentrate on delegating co-operation and increasing the flexibility of staff on country programmes and projects;
- good practice be encouraged and monitored, backed by analytic work to help strengthen the leadership that recipient countries can take in determining their development [3].

The second HLF on aid effectiveness was held in Paris in 2005. It adopted the Paris Declaration which laid out a substantial action-oriented roadmap to improve the quality of aid and its impact on development. It also put in place a series of specific implementation measures and established a monitoring system to assess progress and ensure that donors and recipients hold each other accountable for their commitments [4].

The 3rd HLF was held in Accra, Ghana, in 2008, and resulted in the Accra Agenda for Action (AAA). Greater number and wider diversity of stakeholders endorsed the AAA and both reaffirmed commitment to the Paris Declaration and called for greater partnership between different parties working on aid and development [5].

The international community agreed on concrete commitments towards aid effectiveness laid down in two major agreements: the Paris Declaration and the Accra Agenda for Action. These two internationally agreed documents are based on five core principles, born out of decades of experience of what works for development, and what doesn't. These five principles have gained support across the development community, changing aid practice for the better in a number of successful economies:

1. **Ownership** – aid recipients *have now more authority over their development processes through wider participation in development policy formulation and compilation of their own national development strategies, maintain stronger leadership on aid co-ordination and more use of country systems for aid delivery;*
2. **Alignment** – *donor countries align behind these objectives and use local systems to support these strategies;*
3. **Harmonization** – *donor countries simplify procedures, coordinate and share information to avoid duplication and work to streamline their in-country efforts;*
4. **Results** – *development policies to be directed to achieving clear goals and for progress towards these goals to be monitored. Recipient and donor countries shift focus to development of measurable results and results get measured.*
5. **Mutual accountability** – *donors and recipients should be jointly responsible for achieving these goals and are accountable for development results.*

In 2011, the 4th HLF in Busan, South Korea, broadened the aid effectiveness agenda. At the same time in Busan it was decided to close down the Working party on Aid Effectiveness of the OECD/DAC and to replace it with the Global Partnership for Effective Development Cooperation [6]. The Busan HLF was followed by the first High Level meeting of the Global Partnership in Mexico in 2014 [7]. It basically concentrated on rather broad areas of the development agenda, such as mobilization of domestic financial resources, and the role of official development assistance as a catalyst for private sector development.

Conclusions. The series of High Level Fora on aid effectiveness in the last decade indicates that the international community has become strongly committed to improving aid effectiveness for economic reforms and development through better coordination mechanisms.

The global aid effectiveness agenda singled out that governance significantly affects the likelihood of a successful aid project, specifically, good governance is essential to ensure that aid supports home economic and democratic reforms aimed at development and poverty reduction [8].

Governance reforms are paramount for aid development impact in recipient countries and civil society in those countries should be an active player in governance reforms implementation process.

A rethinking of aid strategies and different approaches to aid effectiveness should be a priority issue for both – donor and recipient countries, including a priority to the demand side and support to many institutions outside the executive branch, including NGOs.

A decisive shift should be made towards more transparency and selectivity in identifying effective lending modalities and appropriate sectors and recipients for funding and aid provisions.

Sustainability of projects' results should be an important measurable indicator for evaluating projects' outcome for aid and lending projects.

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Управління ресурсами допомоги для економічних реформ в Україні

Викладено результати аналізу ефективності допомоги в Україні та її потенціалу для підтримки економічних і демократичних реформ у країні. Виявлено недоліки

управління допомогою та запропоновано поліпшення з метою збільшення впливу допомоги на процес реформ в Україні.

Ключові слова: допомога, донорська спільнота, реципієнти, економічні реформи, ефективність, координація, програма розвитку, життєздатність результатів.

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Управление ресурсами помощи для экономических реформ в Украине

Представлены результаты анализа эффективности помощи в Украине и ее потенциала для поддержки экономических и демократических реформ в стране. Выявлены недостатки управления помощью и предложены улучшения с целью увеличения влияния помощи на процесс реформ в Украине.

Ключевые слова: помощь, донорское сообщество, реципиенты, экономические реформы, эффективность, координация, программа развития, жизнеспособность результатов.

