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Eurointegration Instruments for Economic Reforms

International cooperation resources (ICR) provided to beneficiary countries for development, act as an important instrument of support for market reforms and European integration. Recent international surveys of the institutional capacity for ICR 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 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.

Governance reforms are essential for ICR impact in recipient countries. A development of an effective ICR strategies should be a priority issue for both – donor and recipient countries, including the priority to the demand side.

The study analyzes international cooperation resources management methods and their effectiveness in the European countries and in Ukraine related to economic reforms and to work out recommendations with a view of improving their performance due to European integration intentions of Ukraine.

Keywords: *international cooperation resources, governance, donors, recipients, economic reforms, effectiveness, coordination, decentralized implementation system, results sustainability, eurointegration, transparency, verification.*

Problem setting. International reports have repeatedly pointed out a low level of institutional capacity in Ukraine for ICR management. 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 for attracting and managing the ICR with a view of effectively supporting reforms of the Ukrainian economy in line with the eurointegration goals.

Analysis of sources. The subject is not yet adequately covered by researchers. Some documents were made available by international organizations. So far a few researchers and experts published on the subject matter. The following authors could be singled out: Michael Hogan, Kevin Prigmore, Leonid Kistersky, Victoria Kolosova, Tetyana Lypova, Colin Maddock, Ivo Rollis.

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

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 ICR management and to offer practical steps to supports the economic reforms process in the country.

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The results. A number of High Level Fora on ICR management have unequivocally displayed that the international community had evidently become unhappy with the Ukrainian low institutional capacity of managing external resources for economic reforms in line with the eurointegration goals. The global aid effectiveness agenda stressed that good governance is essential to ensure that ICR supports country economic and democratic transformations.

In economic transformations of the Central European EU member countries international cooperation recourses (ICR) played and continue to play a decisive role in institutional, economic, and legal reforms creating a foundation for the inflow of investment capital into the country and for further interaction with the international economy.

Effectively applied foreign assistance resources contribute to institutional reformation, structural reconstruction of economy, business development and other market reforms, thus creating a basis for foreign private capital inflow to the country and further interaction with the world community [1]. In the worldwide practice the efficiency of the ICR program is measured by the sustainability of goods and services (produced as its result) that will "survive" in the market after project completion.

Donor/recipient modus operandi

In the Central European countries even prior to their acceding to the EU, ICR 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.

In fact, international efforts to enhance aid effectiveness have already a long history. International development co-operation surged in the early 1960s and since that international community held a number of conferences and High Level Forums (HLF) devoted to the cooperation/aid effectiveness issues. For the last 10 years four such HLFs and two conferences have been held.

At that HLF the international community agreed on concrete commitments towards aid effectiveness that 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:

Ownership – aid recipients have now more authority over their development objectives, maintain stronger leadership on aid co-ordination and more use of country systems for aid delivery;

Alignment – donor countries align behind these objectives and use local systems to support these strategies;

Harmonization – donor countries simplify procedures, coordinate and share information to avoid duplication and work to streamline their in-country efforts;

Results – development policies to be directed to achieving clear goals and the goals to be monitored. Recipient and donor countries shift focus to development of measurable results and results get measured;

Mutual accountability – donors and recipients should be jointly responsible for achieving these goals and are accountable for development results.

The two of the HLF – Paris Declaration (2005) and Accra Agenda for Action (2008) specifically 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 ICR attraction and use to reform the Ukrainian economy in terms of the European principles.

ICR management system in Ukraine

In Ukraine, the areas of responsibility for ICR programming, management and reporting are shared structurally amongst different government agencies. 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 ICR receipt in the public finance management (PFM) area, consistency of international financial assistance. Such a dispersion of ICR management efforts under very limited coordination capacities led to low coordination and, consequently, low ICR efficiency in Ukraine.

The Paris Declaration principles, hereunder a recipient country itself should define the strategic development priorities and donor support areas, are not realized so far in Ukraine. On the whole in Ukraine the role of the leader in planning and managing the TA is still being performed by donors in the framework of the so called Centralized Implementation System.

Donor coordination in Ukraine has a long history stretching back 20 years and currently the coordination competencies are split between various Ministries. In recent years the donor coordination mechanism has become increasingly fragmented and non-effective. 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. 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 with a result oriented agenda.

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 [2]. 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 other interested parties.

There are a few key principles of donor coordination activities at the MoF:

- informal management approach;
- consensus principles of the DCWG meetings;
- resolution of any issues arising between DCWG participants;
- activities are focused on results-oriented solutions.

The current informal approach to a DCWG at the MoF 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 later develop into a more structured arrangement on a country level. 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. Effective coordination of donors and international financial institutions – is key to boost aid effectiveness and foster capacity building in the candidate countries and potential candidates [3].

For efficient ICR use it is necessary to create a comprehensive implementation system based on a holistic approach to economic reform, at least in the medium-term perspective. It is also necessary to prepare an internationally acceptable national

development strategy and national development plan with a clear set of sectoral strategies. Also there should be established an effective system of donor coordination, which links the strategy and plans with donor activities.

To radically improve the process of the ICR management in Ukraine, it is advisable to create a special government institution (SGI), independent from other government structures – “Agency/Ministry of International Cooperation and Development” with high status and authority, with qualified staff, with real capacity to program and coordinate ICR; leading international economy experts, representatives of academic and business circles should be engaged in the SGI [4].

Inter alia, a separate high level public institution for ICR coordination existed in Ukraine for some time – the National Center for Implementation of the International Technical Assistance to Ukraine where the basis of the international cooperation in the TA form was laid 23 years ago. Gradually, its status and capacities has been brought down to the present inadequate level.

Headed by a Minister or even a Deputy Prime Minister as the National Coordinator, SGI shall take over the coordination of all TA and eventually financial and investment flows to Ukraine, using the basic principles of the Marshall Plan, which has been successfully applied for the reconstruction of the Western Europe’s economy and democracy after the Second World War [5].

Modeling a system of effective ICR management should be based on the highest level legal basis – a law of the Verkhovna Rada (VR), since in Ukraine does not yet exist a general legal framework for the ICR application. There are only a few laws and regulations of the Cabinet of Ministers of Ukraine and the Ministry of Economy.

Thus, for effective management of TA in Ukraine together with the creation of SGI as the main implementation instrument, there is an urgent need for further capacity building of the Ministry of Finance. A new approach to the management of ICR will enable the Ukraine government to take the lead in planning, mobilization, and ICR use in accordance with the strategic goals of the country, will also push towards closer integration with the international community, while gradually increasing the amount of donor technical and financial support.

World best practices

Meanwhile, the world has accumulated a wide experience in the use of ICR, a lot of positive elements of which could be adopted with regard to Ukrainian realities. For example, in Central Europe before joining the EU, the flow of ICR was allocated through the recipients’ budget with the addition of a small element of co-financing from their own budgetary resources. This practice has been very successful for synergy of efforts of donors and recipients, increasing their joint responsibility for the resources utilized and the results achieved in the process of cooperation.

After joined the EU in 2004, Poland spent two more years for the acquisition of full membership in the EU and the transition to the use of structural funds. Financial management of large aid flows within the structural funds, and before this of PHARE, ISPA and SAPARD, is exercised in Poland by the relevant structure in the Ministry of Finance (MFP) – Department of payments authorization (DPA). The main functions of the DPA regarding the Structural Funds is the presentation of claims to the European Commission (EC), monitoring, reporting and expenditure forecasting, transfer of funds to implementing agencies, monitoring of the use of funds, and paying back of misused resources to the EC. These features have evolved gradually and now they are focused within the DPA as in the main financial resource coordinator on Polish side of the EU and other international organizations resources.

The main instrument in the field of the ICR programming in Poland became the document adopted by the Council of Ministers, which was the official point of view for the required amount and destination of assistance provided to Poland within the EU programs for the current year. Direct programming activities were carried out by the office of the committee for European integration at the Ministry of Regional Development.

The fact that the Ministry of Regional Development coordinates external assistance in Poland is explained by the fact that the EU strategy is aimed at regional development. In fact, the Polish system of external assistance management was being based on the existing state structures without significant restructuring of the division of responsibilities regarding coordination of aid flows according to functional areas of ministries. Such an approach allowed significant cost reduction while introducing a new aid management system, on the one hand, but led at certain stages to the loss of dynamism and underutilization of allocated resources, on the other.

Also, the Polish system of the ICR planning and approval by the National Coordinator provides for the mandatory participation of the Ministry of Finance as the primary permitting and distribution structure that directly manages and is responsible for financial use of EU funds and other external resources. In Poland all external aid flows come into the country's budget and managed by the Ministry of Finance with special programs and accounts.

In Poland, gradually, in the process of approaching the EU, the most effective system based on the positive international experience – Decentralized Implementation System (DIS) of technical assistance management was formed. The introduction of this system is a complex and lengthy process, but the benefits and strengths far outweigh the costs and efforts required. The European Commission has established a document called "Roadmap to DIS" with the aim to set out the procedural stages of the system development, which consists of six consecutive stages stretching over a period up to 5 years.

DIS mainly involves the transfer of obligations for procurement and contracting from the EU Delegation to the beneficiary country, while overall responsibility and control remains with the EU. In practice, this means the transfer of responsibility for project management to the recipient authority being monitored by the EU. Therefore, the primary responsibility for obtaining and using the ICR should and will belong not to the donor, but to the recipient country itself. The recipient, in its turn, develops its own plans in foreign aid demand and develops plans to attract and use the ICR coordinating the plans with the donor on the basis of its own strategic and tactical development goals.

Shifting responsibility to beneficiary countries to manage the ICR occurred gradually and only to a certain degree, as the EU still has overall responsibility for the use of resources transferred to the beneficiaries. DIS also provides for some small co-financing by the beneficiary country to increase responsibility for the implementation of donor financial assistance. The experience of Poland, Turkey and other countries has shown that implementation of ICR projects based on DIS leads to better absorption of funds and higher efficiency results of implemented projects.

Poland's experience, as practice shows, is a comfortable and positive example for Ukraine. First of all, the historical connections and its geographical proximity and the size of the country make it a practical example for Ukraine in many areas, including governance. But the most important thing is that Poland is a good example of successful political, economic and social transformations and the use of EU funds as a key tool in this process. It is also important that Poland is a good example of the DIS introduction.

Poland's experience also shows that the organizational structure of management, including the Ministry of finance should well in advance prepare their procedures for effective management of large resources flows and for prevention of errors and problems that have emerged in Poland during the transition stage. As the experience accumulated in Poland shows, the ICR management format matters a lot: Poland successfully applied project management techniques, largely attracting, especially at initial stages, international experts. Interesting enough that the Bible contains recommendations to use external sources and expertise from outside their own state for getting knowledge [6], because external prophets are listened more closely and their recommendations are more likely to be embodied in practice [7].

Ukraine should prepare its budget system for effective use of new forms and methods of cooperation with the EU. Development of sectoral and national strategies,

ensuring a stable macroeconomic growth, effective PFM reform in Ukraine will allow the country to get access to new financial support instruments, to accelerate economic and democratic reforms and to move closer to the EU integration.

International experience has clearly shown that the initial elements of the DIS should be introduced as soon as possible without waiting for the signing of the Association Agreement. During its transition stage Poland's unpreparedness for ICR management resulted in significant financial losses, since DIS should be established not after the signing of the Association Agreement and resources inflow, but much earlier. DIS, as practice has shown, is also useful for managing resources from any source because of resource management is largely the same in different applications.

Conclusions and recommendations

A number of High Level Fora on ICR effectiveness indicated that the international community has become strongly committed to improving aid effectiveness for economic reforms in Ukraine.

A decisive shift should be made towards more transparency and selectivity in identifying recipients for funding.

Close cooperation of project implementing team with a beneficiary and prior discussion and accordance of the would be products should become a practice in project team/beneficiary interrelations.

Prior applicability estimation and localization of best word experience to Ukrainian realities.

Sustainability of projects' results should be a decisive measurable indicator for evaluating projects' outcome.

Initiation of the DIS introduction in accordance with the EU roadmap.

Development of a solid ICR management institutional system capable of accepting complex harmonization requirements with the EU standards.

Formulation of an internationally acceptable consolidated national development strategy and national action plan.

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Євроінтеграційні інструменти для економічних реформ

Досліджено методи управління міжнародними ресурсами співробітництва, пов'язаного з економічними реформами в Україні, та підвищення ефективності їх використання в європейських країнах і в Україні. Проведено узагальнений аналіз системи управління ресурсами співробітництва в урядових установах України та їх координації з діяльністю донорів. Запропоновано рекомендації щодо підвищення її ефективності.

Ключові слова: ресурси міжнародного співробітництва, управління, донори, реципієнти, економічні реформи, ефективність, координація, децентралізована система управління, життєздатність результатів, євроінтеграція, прозорість, контроль.

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Евроинтеграционные инструменты для экономических реформ

Исследуются методы управления международными ресурсами сотрудничества, связанного с экономическими реформами в Украине, и повышения их эффективности в европейских странах и в Украине. Проведен обобщенный анализ системы управления ресурсами сотрудничества в правительственных учреждениях Украины и их координации с деятельностью доноров. Предложены рекомендации по повышению ее эффективности.

Ключевые слова: ресурсы международного сотрудничества, управление, доноры, реципиенты, экономические реформы, эффективность, координация, децентрализованная система управления, жизнеспособность результатов, евроинтеграция, прозрачность, контроль.

