



Canadian International
Development Agency

Agence canadienne de
développement international

A Path to Reform:

Ukraine Programming Framework 2002-2006

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Canada 

A Path to Reform:

***Ukraine Programming Framework
2002-2006***



November, 2001

TABLE OF CONTENTS

LIST OF COMMONLY USED ACRONYMS.....	ii
EXECUTIVE SUMMARY.....	iii
FAST FOREWORD.....	v
PURPOSE OF THIS DOCUMENT	1
CONTEXT AND REFORM CHALLENGES	2
Canada's Interests in Ukraine	2
Ukraine: General Description	3
Political Environment	5
Economic Environment	15
Environment	20
Nuclear Safety.....	21
The Social Face of Transition	21
Agricultural Reform	24
Gender Equality	25
LESSONS LEARNED	28
Change Takes Time.....	29
Enabling Environment.....	29
Be More Proactive	29
Be Flexible	29
Co-ordination/Partnership.....	30
Best Advantage of Canadian Resources.....	30
OTHER DONOR ACTIVITIES.....	31
Economic Transition	31
Governance.....	31
Social Sector Reform	32
Agriculture	33
Environment.....	34
Energy	34
Other Central and Eastern European Country Donors	34
PROGRAMMING FRAMEWORK	35
Goal and Objectives.....	37
Principal Programme Elements	37
Governance Structures and Institutional Capacity.....	39
Strengthening Civil Society	39
Programming Resources	40
Crosscutting Themes	41
RISKS.....	43
CONCLUSION	44
Annex I – Ukraine Quick Reference	I
Annex II -- Other Donor Activity	II
Annex III -- Current Portfolio of Projects	IV
Annex IV -- Performance Measurement Framework	I

LIST OF COMMONLY USED ACRONYMS

CESO	Canadian Executive Services Organization
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
CNPP	Chornobyl Nuclear Power Plant
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EFF	Extended Fund Facility
EU	European Union
GUUAM	Georgia, Ukraine, Uzbekistan, Azerbaijan, Moldova
HIV/AIDS	Human Immuno-deficiency Virus / Acquired Immune Deficiency Syndrome
IFIs	International Financial Institutions
IMF	International Monetary Fund
IOM	International Organization for Migration
NATO	North Atlantic Treaty Organization
NBU	National Bank of Ukraine
NGO	Non-Governmental Organization
OSCE	Organization for Security and Cooperation in Europe
REE	Renaissance Eastern Europe Program
SMEs	Small- and Medium-Sized Enterprises
STA	State Tax Administration
STCU	Science and Technology Centre of Ukraine
STD	Sexually Transmitted Disease
TACIS	Technical Assistance Program for the Commonwealth of Independent States
US AID	United States Agency for International Development

EXECUTIVE SUMMARY

This document sets the direction for Canadian technical cooperation programming in Ukraine for the period 2002 to 2006, and presents an up-to-date political, economic and social snapshot of Ukraine. The conclusions of the document, which will guide CIDA's programming in Ukraine for the next five years, are informed by lessons learned by CIDA in the ten years of programming which Canada has undertaken in the former Soviet Union. This document is also the product of extensive consultation with Ukrainian partners at the governmental, non-governmental, and institutional levels, as well as with the Ukrainian-Canadian community, other government departments at the federal, provincial and municipal levels, and the non-governmental and institutional community in Canada and the international donor community.

In 1991, Ukraine gained its independence from the Soviet Union. While this independence was a watershed in the country's history, it also marked the first time that the country became truly independent after some 1,000 years of direct rule by others. As such, the country found itself without the most basic instruments of statehood: a central bank; a professional public service; the institutions of a market economy; independent foreign policy; legal and judicial systems based on the rule of law; and, the institutions of civil society, among others.

The importance of Ukraine as a bridge between east and west, and in the stability of Europe as a whole, cannot be understated. In the near future, Ukraine will mark the eastern boundary of the European Union, and ensuring that this large country of some 50 million people is tied into Euro-Atlantic security structures will be key to ensuring a stable and secure Europe.

Apart from Canada's security and concomitant foreign policy objectives in Ukraine, Canada's long-standing interest in Ukraine also stems from the presence of a large Ukrainian-Canadian community. More than 100 years of immigration have provided Canada with a strong cultural, academic, and institutional capacity for understanding developments in Ukraine, and the over 1 million Canadians of Ukrainian heritage provide Canada with particular linguistic and cultural understanding which are enjoyed by few, if any, other donors.

Ukraine has truly made some progress in reforming both its economy and in building democratic systems of government, most notably in the past two to three years. However, despite some legitimate political successes, the first several years following independence were marked by impressive promises of reform which were, unfortunately, largely not followed up with actions. This has led to widespread disillusionment, particularly among the older generation, with government and skepticism about the value of democracy and a market economy.

There are still fundamental challenges facing Ukraine in the coming years if it wishes to build and maintain a constituency for reform. These will include: continued strengthening of the country's economy (including reform of the crucial agriculture sector) in order to ensure that the economic benefits of reform are distributed among all levels of Ukrainian society; rebuilding the social safety net which was devastated by harsh economic conditions in the years following independence; developing a professional public administration and government structures in which integrity is a key feature; increasing gender equality; and, improving environmental sustainability.

The common element among the key transitional challenges facing Ukraine in the coming five years is that of governance – both governance structures and institutional capacity and the strengthening of civil society. Given this principal challenge and Canada's relatively modest budget of some CAD19 million per year, CIDA has chosen to focus its resources on the area of governance, working both top-down (governance structures and institutional capacity) and bottom-up (strengthening civil society), and along the axes of policy making and rule of law. This approach will allow for the optimal program coherence, as policy making and rule of law issues can be addressed at the macro level (governance structures) and the grassroots level (civil society), and impacts achieved in one area can reinforce progress made in others.

While CIDA's program will broadly address governance structures and institutional capacity as well as strengthening civil society, the program does not envision a strict adherence to programming in one particular sector or another. In this way, the program will remain flexible enough to respond to the often rapidly-changing context in Ukraine, and direct its programming to areas within governance or civil society which may emerge as being of particular urgency or in which Canada has particular expertise and can thus make a significant contribution to Ukraine's reform efforts.

CIDA's approach is generally consistent with that of other donors in Ukraine, many of which have also revised their programming strategies in the recent past. CIDA will ensure that our programs, to the greatest extent possible, build synergies with the programming of these other donors, in order to maximize the impact of our interventions. Similarly, within CIDA's programming portfolio, we will seek to ensure that our interventions work with and in support of one another in order to leverage Canada's modest resources.

In conclusion, it should be recognized that reform in Ukraine is a long-term endeavour. The development and successful functioning of the instruments of statehood is not a task which lends itself to a quick fix. CIDA has made a long-term commitment to our programming in Ukraine, and will draw upon the expertise and experience which we have amassed in delivering programming in Ukraine over the course of the past 10 years, as well as on the considerable expertise of our Ukrainian-Canadian community, to deliver an effective program. We anticipate that we will continue to learn from our experiences, and those of others, in the implementation of this program, and that these experiences will further inform and improve our programming interventions in the coming five years.

FAST FOREWORD

Today is August 24, 2006. It is the fifteenth anniversary of Ukraine's independence. Tens of thousands of Ukrainians have gathered in Ukraine's Independence Square to celebrate their country and their independence. Thousands more stroll down Khreshchatyk Street, the capital's main thoroughfare, enjoying the shade of the towering chestnut trees as a respite from the warm summer weather. Street vendors do a thriving business selling refreshments and novelties.

Those who have come to celebrate are speaking with their friends and neighbours about how far their country has come since that exciting day in August 1991 when the Parliament of Ukraine declared their republic to be independent from the Soviet Union, and the historic day a few months later when, on December 1, 1991, the citizens of Ukraine themselves voted in a referendum overwhelmingly confirming their desire to live in an independent Ukraine.

Today, Ukrainians gathered in Kyiv to celebrate Ukraine's independence, like those similarly gathered across the country, will listen to speeches of their leaders -- those that they have supported and those that they have opposed (after all, this is democracy). The leaders will speak of the progress that Ukraine has made: of the importance of Ukraine's Constitution, adopted in 1996, the fifth year of Ukraine's independence; the continuing reintegration of those deported from Crimea during the Soviet Union's involvement in World War II -- the Great Patriotic War.

They will remind those assembled how Ukraine has streamlined and reformed its previously Byzantine public service, to become more accountable to the public and to focus more on service to the public that pays its salary. The leaders will recall that Ukraine has increased transparency, both in government and in the bureaucracy.

They will draw the public's attention to a vastly reformed banking and financial sector, which has regained the trust of both the public and the business community, and to how the legal and regulatory environment in Ukraine has improved such that foreign partners are eyeing Ukraine as one of Europe's most attractive new investment climates for consumer goods, for natural resource development, and, especially, in Ukraine's now burgeoning agriculture sector.

The Ukrainians anxiously awaiting the fireworks that will surely cap off the celebrations of the 15th anniversary of their independence will no doubt be listening attentively to the words of their leaders. But surely other thoughts will be running through their minds. Among these will be the awareness that they are now, after 70 years of Soviet rule and nearly a thousand years of rule by others, responsible for their own fate. That they, themselves, have elected the officials who represent their own interests. And that they, themselves, either individually or as organized

groups, have had the opportunity, peacefully, to voice their opinions and to demand and bring about change in their government, without fear of reprisal.

Of course, the foreign community will be invited to participate in the celebrations. While their representatives will, naturally, celebrate the maturing of this relatively new state on the world stage, the thought that much remains to be done will not be far from their minds. Building the institutions of nationhood is not an easy, nor is it a fast, task. Western partners have supported Ukraine for 15 years now, but they realize that their work is not yet done. Foreign partners will recall the promises of reform that Ukraine made, but did not live up to, in the early years of independence. At the same time, though, they recognize that nation building is a long process, and that setbacks in reform, however disappointing or undesirable they may be, are to be expected.

Foremost in their minds will be the significance of Ukraine as a key part of a stable and secure Europe, and the importance of maintaining support for this large country, building on progress, and working to correct any slippage as Ukraine further matures as a member of the Euro-Atlantic family.

A Path to Reform: Ukraine Programming Framework 2002-2006

PURPOSE OF THIS DOCUMENT

The purpose of this document is to present a new programming framework (PF) for Canadian technical cooperation programming in Ukraine for the period 2002-2006. This document replaces the 1997 strategy, and reflects an updated¹ political, economic and social context in Ukraine, as well as new approaches and mechanisms within the Canadian environment for the delivery of technical cooperation. This document also reviews Canada's program of technical cooperation with Ukraine, which began in 1991 under the auspices of the Task Force on Central and Eastern Europe at the Department of Foreign Affairs and International Trade, and later, in 1995, the Central and Eastern Europe Branch of the Canadian International Development Agency, and draws on the lessons learned from almost 10 years of programming.

The PF was developed as a collaborative effort involving consultations with colleagues within the Central and Eastern Europe Branch specifically and CIDA generally, our Embassy in Kyiv and other Canadian federal government colleagues. This document is also the product of extensive consultations across Canada with our Canadian partners, including representatives of Canada's sizable Canadian-Ukrainian community.

The PF also draws on the experience of the other major players active in Ukraine: the World Bank, the International Monetary Fund (IMF), the European Bank for Reconstruction and Development (EBRD), the United States Agency for International Development (US AID), the United Kingdom's Department for International Development (DFID), and the European Union's Technical Assistance Program for the Commonwealth of Independent States (TACIS).

But most importantly, the PF is based on discussions with stakeholders in Ukraine, including Parliamentarians, government officials (including the Prime Minister's office and the Cabinet of Ministers of Ukraine), non-governmental organizations, current partners in Canadian technical cooperation, think tanks, and the Ministry of Economy of Ukraine, responsible for the coordination of all foreign technical assistance activities and foreign investment in Ukraine.

¹ As of the summer of 2001.

CONTEXT AND REFORM CHALLENGES

Canada's Interests in Ukraine

Canada recognizes the strategic importance of Ukraine and the importance of strengthening Euro-Atlantic security structures such as the North Atlantic Treaty Organization (NATO) and the Organization for Security and Cooperation in Europe (OSCE). While Russia would like to see increased ties with Ukraine (and Belarus), Ukraine has made known its desire for European integration, and has generally sought to decrease its reliance upon Russia.

Although there have been some periodic suggestions that Ukraine might be returning to the Russian sphere of influence, Ukraine has generally sought to balance its ties with Russia by building links with western (and other) institutions and by joining such groupings as GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova), which seek to increase cooperation outside of the Commonwealth of Independent States (CIS). In recent weeks, Ukraine's westward-looking attitude can be most clearly seen in its exceptional level of cooperation with the United States specifically, and NATO generally, in sharing intelligence and offering access to Ukrainian airspace and landing strips in the American response to the events of September 11, 2001. Ukraine's cooperation and strategic location between Europe and Asia also serve to highlight the importance of constructively engaging the country in order to maintain global security.

While Ukraine's periodic attractions to the Russian sphere may well be a political bargaining tool to increase western assistance and attention to Ukraine, Canada nevertheless views a politically and economically stable Ukraine, tied into the Euro-Atlantic security structures, as being key to ensuring a stable and secure Europe.

Broadly speaking, CIDA's program of technical cooperation is also the embodiment of what Canada is attempting to achieve throughout central and eastern Europe – the evolution of institutions and a system of government which respect the rights of Ukraine's citizens and protects and respects human rights and democratic principles and the development of a familiar, predictable market economy which will be attractive to foreign and domestic investors.

Canada has been a champion of Ukraine's interests in G-7 fora. We organized the 1994 conference on Ukraine, which consolidated global support for President Kuchma's first comprehensive economic reform program. We have been at the forefront of Ukraine's efforts to create a strong partnership with NATO, including our Embassy's serving as contact mission for NATO from 1996 to 2000.

Canada's approach to problem solving – in particular those related to dealing with a large superpower neighbour – is appreciated by our Ukrainian interlocutors. Therefore, Canadian assistance is often among the first sought from the international community. This approach is based on shared interests

and the presence of a large and active Canadian-Ukrainian community, particularly in Canada's western provinces. This has resulted in Canada's assistance program being among the most highly regarded by Ukrainian officials and the general public, and has contributed to a level of Canadian influence that is well above what would normally be expected, given our relatively modest annual budget of approximately CAD19 million in technical assistance to Ukraine.

Apart from strategic, foreign policy and security interests, Canada's long-standing interest in Ukraine also flows from the presence of a large Ukrainian community in Canada. More than 100 years of immigration have provided Canada with a strong cultural, academic and institutional capacity for understanding developments in Ukraine. It was natural that Canada played the role of key friend of an independent Ukraine, and that a "special relationship," valued, and often referred to by our Ukrainian partners, should emerge.

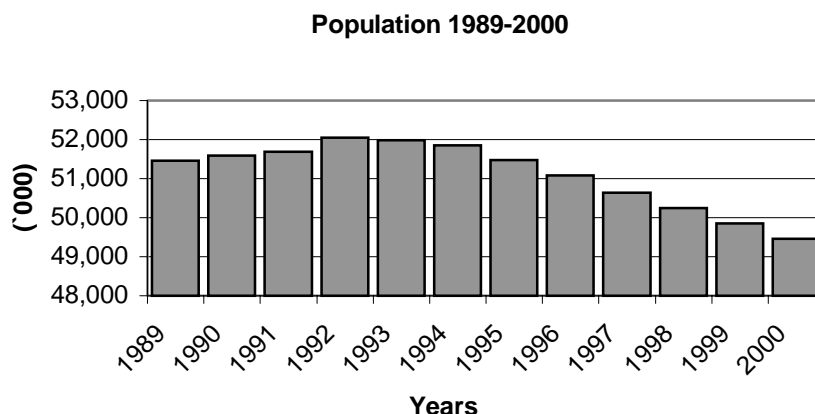
Ukraine: General Description

At 604,000 km², Ukraine, slightly larger than France, is the second largest country in Europe. Ukraine is bordered on the south by the Black Sea, on the east by Russia, to the north by Belarus, and to the west by Poland, Slovakia, Hungary, Romania and Moldova. The general topography consists primarily of steppes, with the Carpathian Mountains in the west and the Crimean mountains in the south being the principal exceptions. Ukraine's territory includes large areas of rich, black soil, which is exceptionally well suited to grain farming, as well as an industrial heartland rich in mineral deposits.

Most of Ukraine has a moderate continental climate with warm summers and cold winters. However, the Crimean Peninsula enjoys a Mediterranean climate with hot summers and mild winters.

The country is divided into 24 oblasts (provinces), one autonomous republic (Crimea), and the city of Kyiv, which holds the same status as that of an oblast.

Ukraine's population of approximately 49 million is primarily urban, highly educated, and speaks primarily Ukrainian and Russian. Approximately 15 percent of the population is engaged in the agriculture sector, while the remainder is split almost evenly between industrial and tertiary sectors. Ukraine's education system is relatively good. Literacy is nearly universal, and Ukrainians have completed an average of 11 years of schooling. While educational standards are consistent with those of the European Union, the quality and focus of education requires substantial improvement to meet the demands of an industrial, market-oriented economy.



Source: EIU Country Profile, 1996-97 & EIU Country Profile, 2001

Unfortunately, since independence in 1991, the slow pace of reform in Ukraine has led to an erosion of the overall quality of life in Ukraine. Per capita incomes have dropped dramatically, and the savings of many Ukrainians were eliminated by hyperinflation in 1992-94. As a result, a significant portion of the population (estimates are approximately 30 percent) lives in poverty.²

Commensurate with the rise of poverty has been the deterioration of health and well being, particularly for the most vulnerable in society: the elderly, women, children, and large families. These factors have combined to produce a declining population, owing to reduced birth rates, higher mortality rates, and net out-migration (more than 400,000 between 1990 and 1997). As a result, Ukraine's population has shrunk from some 52 million at independence to approximately 49 million today.

In 1986, Ukraine suffered the world's worst nuclear accident, when reactor N° 4 at the Chornobyl Nuclear Power Plant (CNPP), 130 km north of the capital Kyiv, exploded, sending an enormous radioactive cloud, profoundly greater than those produced by bombings of Japan in the Second World War, over northern and eastern Europe and parts of what was then the Soviet Union. While only 35 deaths have been officially attributed to the accident, hundreds of thousands of Ukrainians (along with those living in neighbouring countries) experienced an increased risk of cancer from the accident, and 135,000 Ukrainians had to flee their homes, most forever.

While the creation of a 30-km exclusion zone around the CNPP and the treatment of those who suffered exposure to increased levels of radiation have assisted in lowering Ukraine's death rate from cancer to approximately that of the European average, the accident nevertheless has left a very deep emotional scar on Ukraine. On December 15, 2000, the only remaining reactor operating at the CNPP was shut down, and decommissioning of the plant will take place over the next several years.

² Defined for the purposes of this paper as being those having consumption of less than US\$4.30 per day.

Political Environment

On August 24, 1991, following a failed coup by the Communists in Moscow who were opposed to liberalizations being introduced by Mikhail Gorbachev, the Parliament of Ukraine declared the independence of Ukraine after nearly 1,000 years of having been ruled by others, including 70 years of direct Soviet rule as part of the Soviet Union. Canada was the first western country to recognize an independent Ukraine.³ The country held its first democratic elections in December 1991, electing for the first time its own president, Leonid Kravchuk. Kravchuk served out his term, but lost office to Leonid Kuchma in 1994, who was reelected with a second clear majority in 1999.

The early years of Ukraine's independence saw some legitimate political successes, such as the peaceful defusing of separatist tensions on the Crimean peninsula, a smooth transition of power between the two presidents, the disposal of Ukraine's arsenal of nuclear weapons, and the passage of Ukraine's Constitution in 1996. During this period, Ukraine distanced itself from Russia and forged new ties with the West. Unfortunately, aside from these successes, the level of political reform and democratic development has been less impressive, and public disillusionment with government and democratization has become widespread.

Following President Kuchma's reelection in 1999, a new government, with the former Governor of the National Bank of Ukraine (NBU), Victor Yuschenko as Prime Minister was installed, and the first-ever, albeit fragile, Parliamentary majority was formed. Yuschenko's government was generally considered to be market-oriented and reform-minded, and made impressive progress in reforming Ukraine's economy and system of government. Despite its success and high public approval ratings, Yuschenko's government was ultimately dismissed through a vote of non-confidence on April 26, 2001 – ironically the same date on which Ukraine mourned the 15th anniversary of the explosion at Chernobyl. Yuschenko's successor, Anatoliy Kinach, a former Governor of the heavily industrial Mykolaiv Oblast, holds generally centrist views. Kinach and his Cabinet of Ministers (15 of 20 of whom were members of the Yuschenko government) are generally expected to continue the reform program put forward by Yuschenko. After only a short time in office, however, this remains untested.

³ Poland was the first country in the world to recognize Ukraine's independence.

Ukraine has had to develop, for the first time, an independent foreign policy. While there have been evident inconsistencies, the general principles guiding Ukrainian foreign policy have focussed on:

- building bilateral intergovernmental relationships with neighbouring and strategically important and influential countries around the world;
- pursuing Euro-Atlantic and European integration, in particular adapting Ukrainian legislation to the norms of the European Union and the European Commission with a view to Ukraine's hoped-for eventual integration into the European community and the European Union, intensifying relations with NATO as a means of ensuring European stability; and
- multilateral diplomatic relationships to maintain Ukraine's effective participation in the activity of international organizations, to establish effective regional and subregional cooperation mechanisms, and to become active in multilateral agreements on matters such as disarmament, peacemaking, and nuclear nonproliferation.

Dichotomies remain, however, in Ukraine's foreign policy. While, on the one hand, Ukrainian officialdom espouses its desire to fully integrate with the European Union and other European structures, recent actions of Ukraine's officials have suggested otherwise. Through the process of privatization, particularly of key Ukrainian industries (natural resources processing plants and energy companies, among others), Russian interests appear to have been given preferential treatment in the tender process, and as a result, have gained control of important Ukrainian economic concerns. In addition, it is widely speculated that the appointment of Ukrainian cabinet officials, including the Prime Minister, is subject to intense Russian interest and involvement, to the point of outright interference in the government of a sovereign state.

If Ukraine is to maintain its status as a truly independent state, and not revert to being a quasi-provincial subject of Russia, the country must balance its relations with an admittedly large and powerful neighbour with its interests in integration into the Euro-Atlantic institutions. The country must adopt policies that respect its relations with the former superpower while not jeopardizing its independent status as a nation.

From independence, relations with Russia have remained sensitive, with issues such as the fate of the Black Sea Fleet (headquartered in Sevastopol, in Crimea) complicating matters. Although the agreement that Russia would lease Sevastopol for the Black Sea Fleet from Ukraine led to the signing of a friendship treaty in 1999 which eased relations somewhat, some contentious issues remain, notably Ukraine's payments (or inability to pay) for energy imports from Russia, and controversy over whether or not Ukraine illegally siphoned off Russian gas transiting Ukraine for the West.

In recent years, in particular since the election of Russian President Vladimir Putin, Russia has appeared to seek to slow Ukraine's incorporation into

western structures by ensuring Russia's continued influence over energy supplies to Ukraine. Ukraine, in turn, has sought to reduce its political and economic ties with Russia by increasing its ties with other post-Soviet countries such as Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova. However, it is clear that the best means of reducing Russian influence in Ukraine (noted earlier with respect to privatization) will be to speed Ukrainian economic reforms and thus lessen the country's dependence on their large northeastern neighbour.

President Kuchma, when reelected in 1999, directed his government to embark upon a five-year program of reform, focussing on the development of human resources, reduction of poverty, increasing the economy's competitiveness, protecting human rights and freedoms, personal security and the integrity of the state, and promoting Ukraine's integration into the European Union.

Although Ukraine aspires to membership in the European Union, and has made this goal a government priority, it should be recognized that at best, this is a long-term project. Ukrainian legislation, regulations and practices at present are far from respecting EU norms. The EU has made it clear to Ukraine and to the donor community that though integration is an important long-term objective, and is important in encouraging reform, the goal of developing a market economy and democratic systems of government is a more important short term objective that it, together with other donors, is encouraging through its TACIS program.

The government will need to continue to build its credibility in these areas, as well as to withstand pressures to maintain the status quo, particularly given the dismissal of a government, under Prime Minister Yushchenko, which was generally viewed as the most reform-minded in an independent Ukraine's history, and as reforms begin to eat away at the power base and vested interests of the oligarchs who have enjoyed, or continue to enjoy, deep connections with both the legislative and executive branches of government.

Other reform efforts to date have included embarking upon an impressive program of public administration reform, which has drastically reduced the number of ministries and government agencies and has significantly reduced the number of public servants on the state payroll (40,000 budget-funded positions were eliminated in the year 2000 alone, and further reductions are expected in coming years). While these changes are admirable, it is widely considered that they are only the tip of the iceberg. There remain critical, unaddressed problems in the public service that are hampering deeper, more meaningful reforms not only in governance, but also in strengthening the economy by attracting foreign investment.

Ukraine's public service still lacks a clear delineation of authority and definition of the roles of various elements of the public administration, both at the executive levels and at the working level. The President, the Prime Minister, the Cabinet of Ministers and the Ministry of Justice can all issue decrees and instructions without making any reference to any other body. This has led to a

lack of coherence in government policy, as well as duplication and contradiction. While the introduction of a system of government committees has helped to filter out contradictory decisions, the government (President's Administration, the Rada, and the Cabinet of Ministers) as a whole lacks a mechanism that can be used to consider alternative policy decisions in a strategic fashion.

Public administration in Ukraine is also sorely lacking in policy-making and analysis abilities, as well as a critical lack of understanding of the function of policy analysis. Most agencies and Ministries feel that policy analysis is better suited to academics. There are, however, a small number of non-governmental organizations engaged in the area of policy analysis, but they are not adequately resourced to serve the entire government, nor should they replace the policy-making responsibility within each Ministry.

The provision and use of resources is also an area that the Ukrainian public administration must address. At present, in most budget organizations, there is little or no coherent strategy for the use and prioritization of government resources, or between the allocation of government resources and stated

government priorities. Given that the resources available to the government are scarce in the first place, developing a system to more efficiently and logically manage them is crucial.

The issue of communication between governing structures and civil society is also in need of improvement. While citizens' groups are beginning to demand government accountability, particularly at the local level, accountability within the public service is largely informal and undefined, and the population as a whole is largely unable to provide systematic or organized feedback to the government and officialdom. Complicating the issue of organized public input to government is the general attitude of the bureaucracy and government, which is largely unreceptive to public feedback.

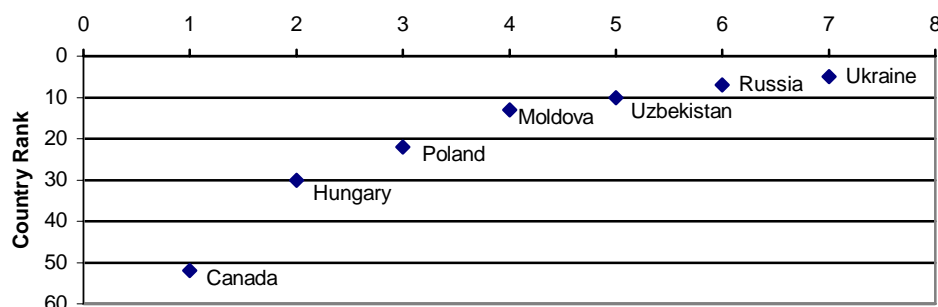
Although citizen participation in civil society does exist, civil society as a whole in Ukraine is generally very fragile and remains poorly developed. Tens of thousands of non-governmental organizations (NGOs) have been registered with a wide range of interests. In reality, however, few are well organized and fully functioning. Legislation related to the status of non-governmental organizations and civil society has been passed. However, many non-governmental organizations that are registered as not-for-profit organizations (e.g. charitable organizations) are experiencing difficulties in raising funds for their activities without being subject to extremely high levels of taxation. Given the weakness of civil society in Ukraine, it is not difficult to understand why many Ukrainians feel that they are not empowered to fully participate in their country's development.

Related to civil society is the issue of press freedom in Ukraine. Although press freedom is enshrined in the Ukrainian Constitution and legislation passed in 1991, the apparent lack of press freedom has become of increasing Ukrainian and international concern, as journalists critical of the government and the oligarchy are harassed or disappear. Virtually all of the broadcast media are government owned or controlled, and independent publications or broadcasters critical of the government have had their assets frozen and/or have been subject to invasive inspections by authorities such as the State Tax Administration (STA). Whether there is any official involvement in these violent activities or not, most journalists practice self-censorship to a greater or lesser degree. Recently, however, particularly following the September 2000 disappearance of an internet journalist (Georgiy Gongadze) critical of the President, the population has begun to recognize the power of the Internet as a source of more independent information than may be available from the Ukrainian press.

Corruption in Ukraine appears at all levels of government and officialdom, and the level of corruption, according to the international financial institutions, appears to be among the highest in central and eastern Europe and the former Soviet Union. Transparency International also ranked Ukraine in 2001 as being perceived as the fifth most corrupt nation in the world.⁴

⁴Transparency International 2001 Corruption Perceptions Index.

The 2001 Corruption Perceptions Index



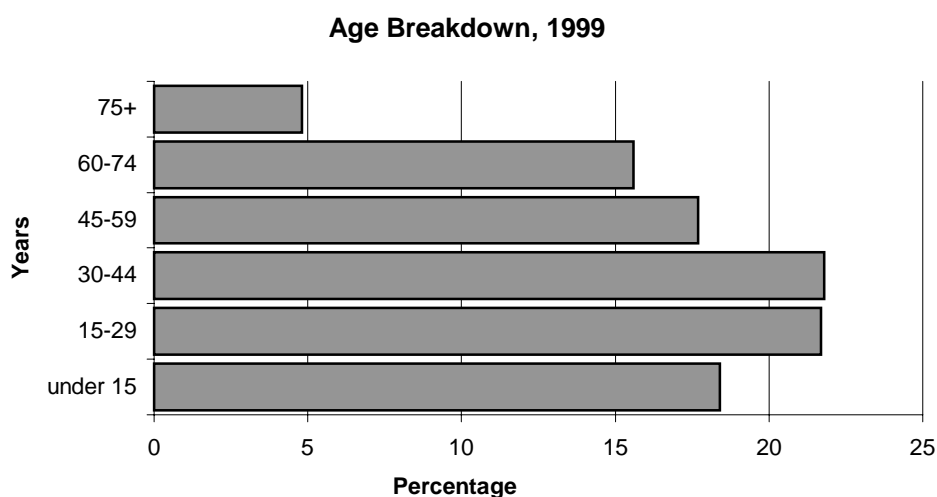
Source: Transparency International, 2001

Admittedly, transparency in government has increased lately, with many agencies setting out clear rules for public access to information, and recognition by these agencies that government information should be public, and that if they wish to withhold information, it is incumbent upon them to justify their reasons for so doing. However, the complex systems of bureaucracy, legislation, licensing, inspections and other bureaucratic hurdles faced on a regular basis by Ukrainian businesses and the public, coupled with low public sector wages and wage arrears, have made corruption and paybacks a way of life in Ukraine.

Further, the lack of reforms over the past 10 years, particularly in profitable areas such as the energy sector, has led to a powerful group of individuals with vested interests who have sought to derail government reform efforts to their advantage. These "oligarchs," many of whom either are, or have aligned themselves with, prominent public officials in an effort to protect their interests, have led to an increased perception of corruption in the country.

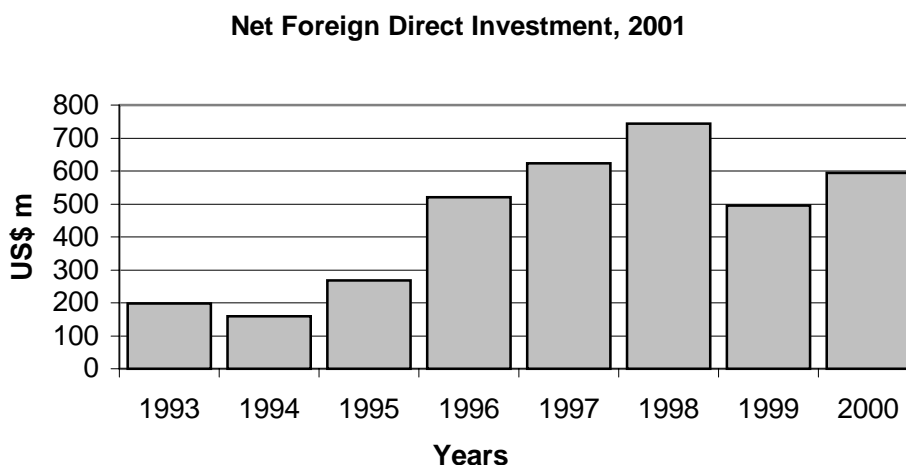
In the past, various groups have made sincere and well-meaning attempts to expose corruption in Ukrainian officialdom. Unfortunately, the vast majority of these efforts have not borne fruit, as those individuals or groups leading them have faced (and in some cases, continue to face) censure, pressure and other attempts to prevent the campaigns from succeeding.

Related to the emergence of civil society and the reaction to the disappearance of Gongadze, a potentially powerful force in Ukrainian society has also emerged as a counterbalance to the vested interests and oligarchs that appear to have a stranglehold on decision-making in Ukraine: youth. Young Ukrainians (classified for the purposes of this paper as those under 30), who have grown up with relatively more access to information from the West than their parents enjoyed, have been at the forefront of calls for government reforms, for public input into policy making, and for removal of government officials who are generally viewed as corrupt by the population at large. Given the proper tools, Ukraine's youth could be an influential and sustained voice in building a constituency for further and lasting reform.



Source: Britannica Encyclopedia, 2001 Year Book

In addition to Canadian efforts in collaboration with the World Bank, other donors, notably the United States and the United Kingdom, are supporting community-based programs in some of the major population centres in Ukraine, to assist in exposing and eliminating corruption at the local levels. However, after 10 years of independence, many Ukrainians are resigned to the present way of doing business, and though frustrated, see themselves as powerless against the bureaucracy and the state. Recently, though, Ukrainians have begun to recognize the role that they can play in influencing government actions, and in particular, have identified the Internet as being not only an important source of more unbiased media coverage of events, but also as an important forum for exchange of ideas and as a portal for information free of local influence and interference.



Source: EIU Country Profile, 2001

Reform of the legal and judicial systems in Ukraine is key to economic development and the attraction of more foreign direct investment. It should be recognized that Ukraine has essentially had to develop a legal and judicial system from virtually nothing at independence – a massive undertaking by any measure. At independence, in addition to not having the structures of legal and judicial systems based in the rule of law, Ukraine's leadership had no experience whatsoever with the function of such systems in a democratic and market-oriented economy. In addition, there are insufficient funds for courts, and the judicial system remains under strong influence from the Presidency. Further, Ukraine's citizens, after 70 years of Soviet rule, and nearly a millennium of rule by others prior to that, had little knowledge of the democratic rights which they should expect, nor of their responsibility to hold their government accountable for upholding the law.

Ukraine requires institutions and processes that will lead to the production of well drafted, fair legislation. Ukraine has taken steps in this regard, and has introduced some key pieces of legislation, such as:

- the Land Code (October, 2001);
- the Criminal Code (April, 2001);
- the Budget Code (March, 2001);
- a new law on accounting (January, 2000) which attempts to bring Ukrainian accounting in line with internationally accepted standards;
- bankruptcy legislation (January, 2000); and
- a concession law (July, 1999) covering the concession of state and communal property including a system of open public tendering.

However, some key pieces of legislation, including, notably, the Civil Code, the Judicial Framework, and the Joint Stock Company Law have still not been passed by the Rada.

Having the institutions to draft quality, fair legislation is only one side of the equation. In addition, Ukraine needs a judicial system that is able to fairly enforce legislation, and encourage respect for laws because they are fair, not because violation brings punishment.

At present, Ukraine's courts face serious challenges in carrying out justice. Issues including lack of judicial independence, institutional weakness, lack of training, lack of access to information including legal databases, and lack of resources are all hampering Ukraine's courts from carrying out their democratic role of upholding the law.

There remain two primary divisive issues between the people of Ukraine. These are:

- language and culture, including the divide between the highly Russified, industrial east and the more nationalistic, rural, Ukrainian-speaking west of the country; and
- the economic disparity between the very obviously wealthy "new" Ukrainians (often associated with the old guard and the oligarchy) and the Ukrainian rank and file.

The issues of language, political orientation, and the divide between the east and the west are closely linked. Russian speakers, who have traditionally looked further east, to Moscow, for their cultural and ethnic identities and political leanings, dominate Eastern Ukraine, including the country's industrial heartland. The western portion of Ukraine, however, which is more rural, changed hands several times this century, having been at various times parts of Poland, Romania and the Austro-Hungarian Empire. Generally, residents of the west of Ukraine identify themselves culturally much more strongly as Ukrainians than their countrymen in the east, and speak predominantly Ukrainian. There have been periodic incidents of disagreement and violence over Ukraine's language policy, and at a more grassroots level, over an individual's choice to use one language or the other.

The disparity between the wealthy and most Ukrainian citizens is obvious, particularly in the major urban centres. Those who have capitalized on Ukraine's independence have not hesitated to become conspicuous consumers of luxury automobiles, flats renovated or houses built to opulent standards, and other luxury goods. Such "new" Ukrainians are generally distrusted and disliked by the majority of the population, who must survive on modest incomes, and who are often forced to sell their own family's heirlooms or to work more than one job simply to make ends meet. This enormous disparity in income, particularly given that the "new" Ukrainians are frequently perceived to be associated with the oligarchy and those who are felt to have unfairly capitalized on Ukraine's independence, industry and natural resources, has led to an enormous distrust and skepticism on the part of the majority of the population, and a consequent lack of belief in the value of real economic and political reform.

Other issues complicating the environment for political and economic reform in Ukraine, though becoming less and less divisive, include ethnic, religious and cultural divisions. Generally speaking, those in western Ukraine, who are by and large catholic, Ukrainian-speaking, and nationalist leaning, are more pro-reform, western-looking and progressive than the more orthodox, Russian-speaking and industrialized population of eastern Ukraine. This being said, however, relations between Ukrainians (73.6% of the population) and Russians (22.4% of the population)⁵ in Ukraine are generally good given their cultural closeness and generations of intermarriage.

Ethnic divisions also threaten Ukrainian security, primarily in the southern Ukrainian Crimean peninsula. The return of some 250,000 formerly deported

⁵ Economist Intelligence Unit *Country Profile 2000*

peoples to Crimean after some 50 years of exile imposed by Stalin, is straining the peninsula's infrastructure, education system, and government. Efforts are underway, however, to ensure that the returned deportees (primarily Crimean Tatars, but also including other ethnic groups in smaller numbers) have a voice in the peninsula's government, the ability to educate their children in their native language and culture, and have access to Muslim religious facilities.

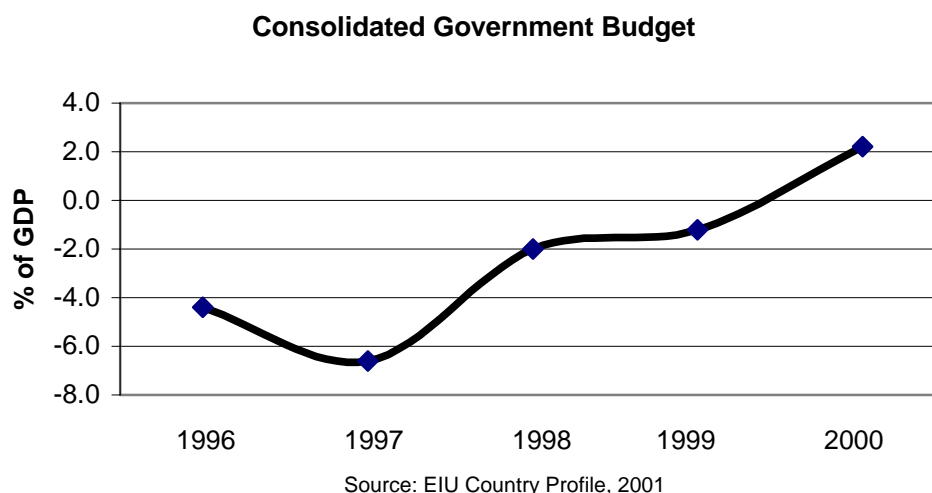
Economic Environment

For the first time since independence, since the year 2000 Ukraine's economy has experienced growth:

- tax collection has improved markedly;
- capital flight has been reduced;
- the country is experiencing a positive trade balance;
- GDP growth in real terms in 2000 was up 6 per cent and is projected to be 3.5 per cent in 2001⁶ (in 2000, GDP per capita in Ukraine was US\$750 – a figure that had fallen on average 7.6 percent since independence, or to approximately 40 percent of its 1990 value);⁷
- the 2002 government budget contains a deficit of no more than 1.7 per cent of GDP (down from 3 per cent in 2001;
- the consolidated government deficit was cut (on a cash basis and including privatization revenues) last year to 1.9 percent of GDP from a 1998 figure of 2.3 percent;
- the exchange rate of the US dollar to the Ukrainian Hryvnia has remained relatively stable at UAH 5.4:US\$1 for over 18 months;
- a growth in industrial production of approximately 10 percent over 1999 figures; and
- an increase in agricultural production of nearly 8 percent, and the country in 2001 is expected to have a post-independence record grain harvest of some 37 million tons, at least 6 million of which will be sold abroad;
- the Rada has adopted a balanced budget for the second year in a row; and
- the government's current account is in a much healthier position than in previous years.

⁶European Bank for Reconstruction and Development Transition Report Update 2001.

⁷Atlas methodology. Report and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Proposed First Programmatic Adjustment Loan (PAL I) in the Amount of US\$250 Million to Ukraine, August 23, 2001.



However, given that the country's economy had shrunk by approximately two-thirds – the steepest drop of all post-Soviet economies not experiencing war – since 1989, there remains much room for improvement. The growth that did occur was due, in large part, to the stance of Prime Minister Yushchenko's government (January 2000 - April 2001). Under Yushchenko, the government required increased discipline in the collection of cash payments for taxes and electricity bills. This, combined with movement of large parts of the Ukrainian economy out of the shadow economy and into the sector of the country contributing to the budget, has led to a substantial reduction in barter operations and greater transparency of finances flowing into the national economy. As a result, international financial institutions estimate that up to one half of the growth of GDP last year has been due to the legalization of parts of the shadow economy, rather than of actual new economic activity. In addition, privatization of nationally owned industries has brought significant income to the Ukrainian budget.

Ukraine's economy upon independence, as it was during Soviet times, was primarily based upon heavy industry – notably steel, chemicals, shipbuilding, coal, machine tools and weapons – all of which were heavily dependent upon government subsidies. Since independence, Ukraine has been largely unsuccessful in diversifying its economy into other sectors, and as a result, economic growth, until recently, has been non-existent in Ukraine. While some successful efforts have been made to both reduce government interference and to diversify the economic base (primarily in the food processing sector), the influence of these sectors on economic growth remains comparatively low.

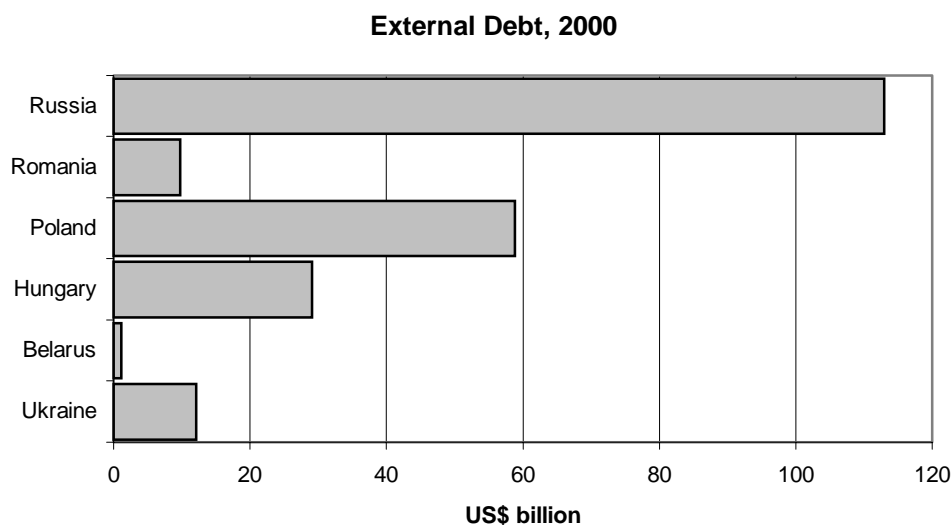
The origins of the economic decline which characterized the first nine years of Ukraine's independence are much the same as in other transitional economies: the dual shocks of collapsed trading relations; and significantly higher energy prices following the break up of the former Soviet Union. As most Soviet-era products were not competitive on world markets, Ukraine's ability to shift exports to the West was limited. Fortunately, however, a strong demand beginning in late 1999 for products such as metals and chemicals

assisted Ukraine in recovering from the regional economic downturn brought about by the 1998 Russian financial crisis, as growth in these sectors was able to compensate for the general lack of competitiveness on international markets. It should be noted, however, that this level of industrial growth is not likely to be sustained unless there is a concomitant increase in the level of structural and institutional reforms, and continued decrease in the state intervention in the private sector. Given that Ukraine's economy was, and remains, heavily dependent on energy, rising energy prices made competition on the world markets even more difficult. Added to these problems was the factor that the structure of the Ukrainian economy itself was not conducive to operation in a market economy: productivity was extremely low, and state enterprises demonstrated inflexibility – and in some cases unwillingness – to change their manner of operation.

What has distinguished Ukraine from the other post-Soviet transitional economies has been the degree to which Ukraine tried to protect the loss-making enterprises from closure in order to preserve both employment and income levels. To accomplish this, Ukraine granted subsidies and other privileges to industry (most of which were largely unproductive) that were well beyond the country's available resources – a practice that runs exactly opposite to a market economy and that drained the newly independent Ukraine's financial resources. The difference was financed through hyperinflationary credit expansion in the years immediately following independence, and subsequently by heavy foreign and domestic borrowing for which the country is still paying.

Complicating factors contributing to Ukraine's hyperinflation in the early years of independence also included the introduction of policies related to privatization that were either never acted upon, or later rescinded, giving enterprises the impression that the status quo would continue and that change was not needed. In addition, the uncertain climate for both domestic and foreign investment resulted in very low levels of investment, and hence, revenue, to support the State budget.

The costs of the policies of subsidy and privilege to industry are today obvious. Presently, the government of Ukraine struggles with heavy debt service obligations (expected to exceed US\$1 billion annually for the next few years) and in each of the past three years has experienced crises in redeeming loans and bonds. Although the IMF in December 2000 agreed to resume lending under the Extended Fund Facility (EFF), only one tranche was released before the EFF was again suspended in February 2001, due to reversals in energy sector reforms. In September 2001, the IMF Board agreed to resume lending, and has made available a further tranche of some \$375 million under the US\$2.6 billion arrangement. Resumption of EFF disbursements was also a condition for the much-needed rescheduling of Paris Club debts to cover an expected US\$2.5 billion financing gap. Also in September 2001, the World Bank approved the first of three US\$250 million Programmatic Adjustment Loans for Ukraine to support the country's medium-term economic development and reform program.



Source: EIU Country Profile, 2001

Short of resources, the government of Ukraine is putting pressure on those domestic industries that *are* profitable to pay taxes, leaving many with little room for investment and growth. The combination of a burdensome tax regime and intrusive regulatory intervention has encouraged widespread tax evasion, thereby putting even more pressure on firms remaining in the formal sector of the economy. As a result, as much as 50 percent of all economic activity in Ukraine operates in the shadows,⁸ making it even harder for the government to obtain the resources it requires for efficient operation, the creation of a good business environment that is attractive to investors and that provides a good social system that develops and protects Ukraine's population. The government's high levels of domestic borrowing to cover its deficits and debt service costs have crowded out the enterprise sector from the capital markets, and with very high interest rates, few enterprises can afford to borrow.

Ukraine has improved its debt management in recent years, and as a result the level of debt as a percentage of GDP has been reduced to 33 per cent. This is largely as a result of better budget discipline, expenditure controls, elimination of budgetary offsets and privileges, a reduced tax burden on business (resulting in greater willingness to operate in the open market and to pay taxes), as well as the successful restructuring of Ukraine's foreign debt in March 2000.

Still, Ukraine's economic reform faces some formidable challenges in five key areas.

⁸The Cabinet of Ministers of Ukraine in March 2001 asked the Verkhovna Rada to approve a law on legalizing shadow capital, levying a tax of only 10 percent on capital, in an effort to encourage businesses to enter the formal economy. If approved, the law will provide those businesses operating in the shadows the opportunity to take advantage of this arrangement for a period of one year from the date of the legislation's passage.

1. Following the hyperinflation of the post-independence years, Ukraine's banking sector is largely distrusted by Ukrainian citizens, and as a result the sector as a whole is undercapitalized, weak, and fails to deliver on the most basic banking needs of Ukrainians. Banking legislation is inadequate and at present complicates any efforts by the National Bank of Ukraine to deal with problem banks and to implement recovery plans for banks that are foundering. In addition, although efforts to establish such a system are underway, at present Ukraine's system of deposit insurance to provide depositors with confidence that they will be able to recover their savings should their bank cease operation presently insures a maximum of 500 Hryvnia (approximately US\$94 at June 2001 exchange rates). Further, legislation and regulation related to the use of property as collateral (indeed, related to the private ownership of land itself) has not been adopted, and as such, access to longer-term lending such as mortgages is not available to Ukrainian consumers.
2. While the Verkhovna Rada approved a balanced budget for the year 2001, its successful implementation will require very strong discipline in meeting privatization targets (and therefore, income levels), and reducing budgetary offsets and social payment arrears.
3. The State Tax Administration (STA) is, at present, one of the most powerful and one of the most feared government institutions for the average Ukrainian citizen or business. The STA has a reputation, in many cases well-earned, of conducting multiple, invasive inspections on profitable businesses, of freezing bank accounts, and of causing businesses to cease operation.

A reform of the STA to increase transparency and to reduce the invasiveness of its collectors and inspectors would contribute significantly to improved collections, the movement of businesses out of the shadow economy, and therefore, further growth for the economy as a whole. Reform efforts are underway in this sphere. These efforts, however, are incomplete and complex to implement, given the multiple levels of controls and corruption that must be addressed.

4. A key to economic reform and growth in Ukraine will be the increase of foreign investment. In order to accomplish this, Ukraine must reduce the cost of doing business in Ukraine (see section on corruption, above), reduce the bureaucracy involved in registering and operating a business, and revise legislation, licensing, certification and reporting requirements. Evidence of positive changes in these areas will also help to improve Ukraine's credibility in promoting investment, and to lessen the perceived level of corruption in Ukraine.
5. Ukraine must increase its payment discipline with respect to the energy sector. Recently, payments have improved. However, this must be further strengthened, and customers, most notably industrial concerns, who have not paid for their energy supplies must be cut off in order to increase transparency. Recent interest and investments in Ukraine's energy sector

by Russia have highlighted the energy sector as being of particular importance, as Russian control of Ukraine's energy supply could jeopardize Ukraine's independence.

Environment

Following years of mismanagement and lack of environmental awareness under Soviet rule, Ukraine is one of Europe's – if not the world's – most environmentally damaged countries. The environmental degradation caused by heavy industry's almost total disregard for environmental management, especially in the Donetsk basin in the southeast, has left a legacy of air pollution, and industrial waste, which has contributed to the pollution of the Dnipro River and the Black Sea. Compounding Ukraine's environmental challenges was the April 1986 explosion at the Chornobyl Nuclear Power Plant, which contaminated some 260,000 km² of Ukraine and neighbouring Russia and Belarus, or roughly the combined areas of Scotland and Northern

Ireland. The accident affected nearly 10 per cent of the territory of Ukraine, 20 per cent of Belarussian territory, and between 0.5 and 1 per cent of Russia's landmass.⁹

In recent years, Ukraine has begun to realize the seriousness of its environmental problems. The country has taken steps to preserve several ecosystems that are unique to Ukraine, and has undertaken, with Canada's assistance, a serious attempt to clean up the Dnipro River, and, working with officials in Russia and Belarus, has taken the lead in developing a strategic management plan for the entire Dnipro River Basin. Unfortunately, Ukraine has much more work to do in order to increase the strength of its political will and depth of its technical know-how in environmental management, particularly in the areas of urban and industrial pollution, energy efficiency, sustainable use of its natural resources, and further work on meeting its commitments to various multilateral environmental agreements, including those related to climate change, ozone-depleting substances, persistent organic pollutants and biodiversity. First and foremost, attention must be paid to the overhaul of the legal and regulatory framework governing the environment sector in Ukraine if environmental management is to be brought to a level that will assist in making Ukraine and Ukrainian firms more attractive to investors.

The nature of Ukraine's environmental problems goes beyond mere technical capability or environmental disregard. Ukrainian officials are aware of the problems caused by heavily polluting industries, however, in many cases it is these very industries which are contributing to recent economic growth and a more positive economic output in Ukraine. Closing or limiting production of these industries would thus have consequences on the overall economic situation, as well as bringing with them a host of social problems related to loss of employment and the lack of an adequate social safety net to support unemployed workers. This, at a time when demonstrating to the population

⁹*Chornobyl Ten Years Later*, Dr. David R. Marples, University of Alberta, 1996.

the positive aspects to reform is paramount, presents a difficult situation for Ukraine's industry and political leaders.

Nuclear Safety

An important aspect of Canada's program of cooperation with Ukraine has been the issue of nuclear safety. In response to concerns primarily surrounding the safety of the one remaining reactor at Chornobyl (which was shut down in 2000), Canada has been an active player in international activities related to building capacity related to the governance of the nuclear sector in Ukraine, as well as the physical security of the reactor that exploded in 1986.

Given the implications of the Chornobyl disaster not only for Ukrainians, but globally, nuclear safety has been an important element of Canadian assistance to Ukraine. While CIDA will fulfill its commitments to Chornobyl, which extend through 2006/2007, we are presently in the process of what is expected to be CIDA's (though not necessarily Canada's) last initiative in this area: construction of a new shelter to contain the exploded reactor N° 4. The total of G-7 commitments to the closure of Chornobyl are estimated to be some \$2 billion.

Canada is also delivering on nuclear nonproliferation commitments made in G-8 fora through its ongoing support for the Science and Technology Center of Ukraine (STCU). The STCU supports research and development activities for peaceful applications by Ukrainian, Georgian, and Uzbekistani scientists and engineers, formerly involved with development of weapons of mass destruction and their means of delivery, as part of the general process of conversion from a military to a civilian, market-oriented environment.¹⁰ Canada was a founding member of the STCU, and has had ongoing involvement with the Center since, including encouraging a substantial private sector involvement and partnership in the Center in an effort to establish the Center as a financially sustainable entity when donor funding is withdrawn.

The Social Face of Transition

There is no question that the transition from a command to a market economy and democratic system of government is exacting a heavy social toll on Ukraine and Ukrainians. In fully 90 percent of Ukrainian oblasts (provinces) at least 20 percent of the population lives in poverty (defined for these purposes as having consumption of less than US\$4.30 per person per day), although by international standards, only 3 percent of households are living in extreme poverty (consumption of less than US\$2.14 per person per day), and 18 percent of households are spending 80 per cent of their total expenditures on food.¹¹

¹⁰Science and Technology Center of Ukraine Web site (www.stcu.kiev.ua).

¹¹World Bank, Report and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Proposed First

The groups most affected by poverty in Ukraine are families with children (especially families with three or more children), the elderly living alone, in particular pensioners, the unemployed and the working poor (40 percent of those classified as poor in Ukraine have a formally employed head of the family),¹² as well as households headed by women, making gender equality an important area for attention. The situation in rural areas, in particular, is critical.

Although Ukraine has made the switch from a command to a market economy, it has yet to develop and embrace all of the institutions of a market economy. As such, poverty in Ukraine has been artificially alleviated through a system of both open and hidden subsidies – principally through reductions or controls of prices for bread, housing, transit and electricity, and tacit approval of nonpayment for energy and housing costs. These subsidies and controls have made the cost of reforming the social sector extremely unpopular and difficult from a political standpoint, and has resulted in many of Ukraine's poor – in particular the elderly – pushing for a return to Soviet ways in an effort to slow or block reforms.

The rise of poverty in Ukraine has had a tremendous effect on the Ukrainian psyche – in just 10 years, the population has been transformed from one characterized by relative material security to one characterized by widespread poverty.

With the rise in poverty in Ukraine has come concomitant erosion in the availability and quality of basic social services. Simply put, the cradle-to-grave care that the state provided under the Soviets no longer exists.

Until recently, payments both into and out of pension and social benefits funds had been in serious arrears, and while the pension arrears in particular have been significantly reduced or eliminated, the management of the pension system is unsustainable, with approximately 16 million workers (out of a workforce of an estimated 22 million) supporting 14 million pensioners (for comparison's sake, Canadian figures are 14 million workers supporting 3.5 million pensioners).¹³ Despite regular increases to pensions, the level of benefit received is very close to, or below, the poverty line.

The Government of Ukraine has recognized the need to reform the pension system, and is seeking to develop a program which will ensure that more revenues are received, the contribution base is expanded, and the number of pensioners entering the system is reduced. The success of pension reforms will be vital to building and maintaining support for reforms in the social sector, and for the success of economic and political reform overall.

Programmatic Adjustment Loan (PAL I) to Ukraine, August 23, 2001.

¹² World Bank, *Country Assistance Strategy*, August 2000.

¹³ Human Resources Development Canada, International Division.

Even from the generally low standard of care that was available under the Soviet system, health care standards and spending have deteriorated significantly – between 1993 and 1999, health care spending declined by two-thirds. At the same time, however, Ukraine has maintained its huge medical infrastructure, which has respectively more than double, and nearly four times, the number of doctors and hospital beds per capita than Europe and the United States. As a result, the funding available for the maintenance of the medical system is a mere fraction of what is required for its effective operation. This is complicated by a medical focus on treatment, rather than prevention, which naturally increases reliance on an already fragile medical system.

Naturally, these factors have led to a serious deterioration in the mental and physical well being of the Ukrainian population, and a rise in infectious diseases such as tuberculosis,¹⁴ and cholera. Particularly worrying is Ukraine's rate of HIV/AIDS infection – while the country has some 31 thousand officially registered cases of HIV, and approximately 1,350 registered persons living with AIDS,¹⁵ it is expected that the actual number of infections is closer to 240,000 – a number which could rise to 1.5 million by 2010¹⁶ if action is not taken to control the epidemic. In addition, Ukraine has seen a serious decline in life expectancy, in particular for men, as well as an infant mortality rate (11.9/1000 live births in the year 2000¹⁷) which is more than twice the average in Europe.

Coupled with the lack of resources for health care in Ukraine, the problem of the population's health is compounded by a severe lack of healthy lifestyles. A combination of poor diet, smoking, alcohol consumption, and intravenous drug use (especially among youth), as well as very low taxes on tobacco and alcohol and a lack of restriction on advertising for both alcohol and tobacco, all contribute to the decline in health standards.

In an effort to improve the level of health care available to the Ukrainian population, the government has developed a program to strengthen primary health care, develop a sustainable health insurance program, introduce the concept of family doctors, and to create the conditions necessary for private medical practices. The success of these reforms will be crucial to the overall support for reform in Ukraine as a whole.

¹⁴Ukrainian Ministry of Health statistics estimate that the number of tuberculosis cases in Ukraine has grown by 180 percent since independence, and that tuberculosis-related deaths have grown by 270 percent over the same period. In 2000, 60.2 people per 100,000 were infected with tuberculosis. Health Canada figures report incidence of tuberculosis in Canada of less than 6 per 100,000.

¹⁵UN AIDS, *Situation Analysis*, 2001.

¹⁶American Foundation for AIDS Research (amfAR), Report on AIDS in Eastern Europe and Central Asia.

¹⁷State Statistics Committee of Ukraine.

Aggravating Ukraine's lack of resources for basic health and social services is a predominant attitude of institutionalization, under which the disabled and orphaned are placed in institutions that are ill-equipped to provide the basic nutritional, educational, health or other services. Given Ukraine's present poor economic state, these orphanages and other institutions are unsustainable and their lack of ability to prepare young Ukrainians to return to society outside of the institutions serves only to exacerbate the difficulties in dealing with these vulnerable groups.

Agricultural Reform

Ukraine is recognized as having some of the richest soil on Earth, and has a population with excellent agricultural experience and a very emotional attachment to their land.

From independence until late 1999, agricultural reform in Ukraine was virtually nonexistent, and while some progress has been made since, advances have been slow. Efforts to prevent serious attempts at reform have included conservative forces within the government forcing the introduction of counterproductive measures such as restrictions on the private marketing of grain, governmental supply of agricultural inputs such as fertilizer and machinery, and a total opposition to private land ownership.

While Ukraine's agriculture sector makes up approximately 50 percent of the country's GDP, production has declined significantly, as have input use and salaries. While in the year 2000, for the first time since independence, the sector experienced net growth of nearly 8 percent (which many feel is due to the fact that the Government of Ukraine did not directly support production), the Verkhovna Rada has also taken some contradictory actions, including the imposition of export duties on key exports such as sunflower seeds.¹⁸

The Government of Ukraine has recently recognized the necessity of modernizing the agriculture sector, and has plans for ongoing reforms in areas such as land reform and the distribution of land titles, and development of a title registration system, as well as additional legislation and the development of market institutions. The government's commitment to reform appears to be serious, and concrete indicators of success have begun to appear: in 2001, the harvest is nearly double that of 2000 (37 million tonnes vs. 19.4 million tonnes),¹⁹ although this has unfortunately brought about a slump in prices in response to which Ukraine is requesting assistance from the international community to assist in grain stabilization measures.

Recently, the parliamentary ban on bankruptcy procedures for agricultural enterprises was removed and Ukraine finally passed, despite strong opposition, a Land Code on October 25, 2001. The country is stepping up efforts to develop a system of title registration, and mortgage laws. They have

¹⁸ Although the Verkhovna Rada voted on March 14, 2000, to reduce the sunflower seed export duties from 23 percent to an IMF- and WTO-mandated 17 percent.

¹⁹ *Interfax Ukraine*, September 3, 2001.

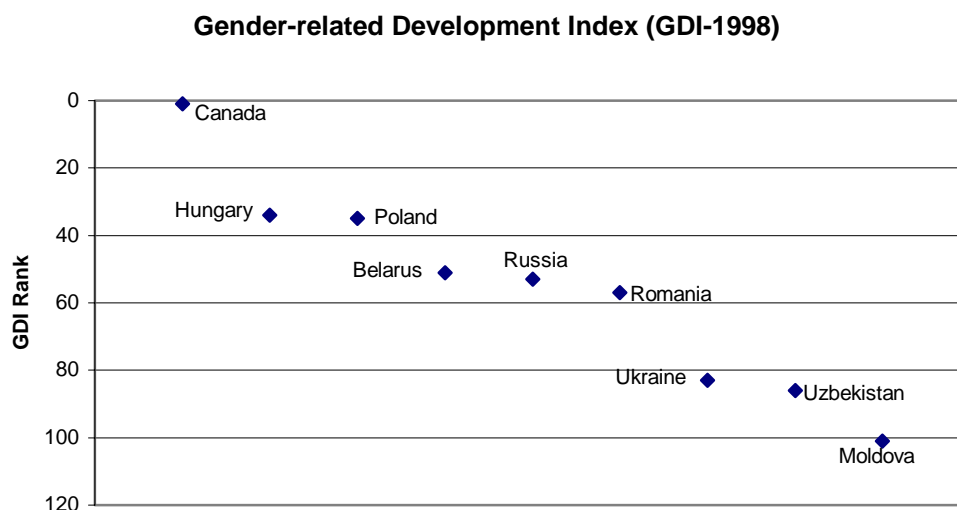
also publicly committed to reducing government interference in the provision of agricultural inputs and the marketing of outputs. The new law on joint-stock companies is also expected to be passed this year. In addition, the government of Ukraine has undertaken an ambitious program of land privatization and titling, which will see the distribution of some 6.5 million land titles (1.5 million of which have already been distributed).

There remains much work to do, however, to bring about more complete reform of the agriculture sector. Ukraine still lacks a system of market research and response, well-established farm credit and banking systems, systems for exchange of information (extension services), effective legislation and regulation, price stabilization mechanisms, safe warehousing, export regulations, effective produce transportation systems, marketing, and promotion of value-added products.

In recent months, recognizing the similarities between Canada's agriculture sector and that of Ukraine, Ukrainian officials have become much more vocal in requesting Canadian experience and assistance in agricultural reform, and have taken the opportunity of visits of senior officials to Canada or of Canadian visits to Ukraine to reinforce their wish for Canadian assistance. Specifically, Ukraine has requested Canadian assistance in the development of agricultural cooperatives, rural credit unions, land registration, agricultural extension services, agricultural commodity trading, and the improvement of farm management practices, including animal husbandry and institutional capacity building.

Gender Equality

While gender equality is stipulated in several key pieces of Ukrainian legislation – including the country's Constitution – and while formal complaint mechanisms, such as the national Ombudsman's office, are in place to deal with cases of gender inequality, in reality, this framework exists only formally, and does not function in day-to-day life. To date, there has not been a single suit of gender discrimination tried in Ukraine.



Source: UNDP, 1998

Women in Ukraine have traditionally formed the majority of graduates (due largely to Soviet-era quotas) from both secondary and post-secondary studies, and make up some 60 percent²⁰ of all professionals with higher education. Unfortunately, these proportions are not translated into the labour force. Since independence, women have come to represent 70 percent of all unemployed workers, and of these, fully 70 percent have higher education. In addition, women are subject to a disproportionate level of layoffs, discrimination in hiring, dangerous working conditions, and illegal dismissals.

Women form the majority of voters in Ukraine. However, nearly 33 percent have indicated that they are completely indifferent to politics in their country (compared to only approximately 24 percent of men), and only 6 percent consider themselves to be very interested in politics (compared to 13 percent of men). In Ukraine's Verkhovna Rada, only 28 of 450 (6.2 percent) of the People's Deputies are women. Similarly women do not figure highly in decision-making positions in government: while women make up nearly 70 percent of the public service, they occupy less than six percent of the top positions.

Domestic violence in Ukraine is considered to be so widespread that it is not recognized as a problem, but as a fact of life. As a result, most domestic violence goes unreported. The Ukrainian Institute of Social Research has calculated that 85 percent of women in Ukraine have been subject to

²⁰ All statistics relating to gender equality in this section are drawn from the document *Women 2000: An Investigation into the Status of Women's Rights in the Former Soviet Union and Central and South-Eastern Europe*, published by the International Helsinki Federation for Human Rights.

psychological, and 60 percent to physical, abuse. It is estimated that approximately 20 percent of all girls aged 17 through 21 have been raped or sexually assaulted.

Extremely troubling has been the rise in trafficking in women from or through Ukraine. The International Organization for Migration (IOM) estimates that some 100,000 Ukrainian women have been illegally transported across the border since independence in 1991. Most of these cases go unreported, as the women involved do not feel that they will receive fair treatment from police, nor protection from the traffickers.

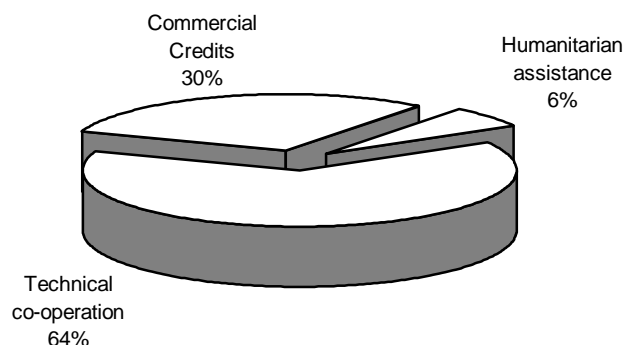
What is lacking, in Ukraine is the understanding or attitudes of men – those who are for the most part in power in Ukraine – of the importance of ensuring that women capitalize on their constitutionally-guaranteed right of equal access to education, benefits, and employment opportunities. Work is also required which will assist in educating authorities about the seriousness of violence against women and to ensure greater reporting and enforcement of laws against such actions.

LESSONS LEARNED

In the early days of Canada's technical cooperation program with Ukraine, a principal objective was to demonstrate strong Western support for the newly initiated reforms, to ensure that the country did not revert to its Communist system of government, to encourage Ukraine to quickly make the transition to a market economy and a democratic system of government, and to try to create opportunities for Canadian firms interested in investing or otherwise doing business with Ukraine. As a result, while support for independence was clearly demonstrated and tremendous goodwill was generated, a large number of relatively short interventions in a wide variety of sectors were funded, many of which encouraged people-to-people linkages, and many of which were largely supply-driven.

Throughout our involvement in Ukraine, while the program was housed at the Department of Foreign Affairs and International Trade, and since 1995, when the program was transferred to CIDA, our program has taken a predominantly partnership approach, in which CIDA makes a contribution to a project or program developed and partially paid for by Canadian and Ukrainian partners. The portfolio of projects in Ukraine, the second largest country program (behind Russia) in the Central and Eastern Europe Branch, consists of nearly 40 projects in 11 sectors. Since 1991 Canadian programming in Ukraine has seen more than \$235 million in bilateral assistance committed, including \$151 million in the form of technical co-operation, \$14 million in humanitarian assistance, and \$70 million in commercial credits. In addition, Canada has provided \$33.7 million in multilateral assistance and \$19.2 million in regional initiatives to countries in Central and Eastern Europe, including Ukraine.

Canadian Bilateral Assistance to Ukraine 1991-1999



Source: CIDA, 2001

Throughout our programming, we have learned a number of valuable lessons.

Change Takes Time

We have learned that we have significantly underestimated the amount of time that Ukraine will require to fully make the transition to a market-oriented economy and democratic system of government. As an example, our early expectation was that with the presence of Canadian or other western technical assistance, Ukraine's energy sector would be quickly liberalized and attractive to outside investment. The presence of oligarchic and other interests, however, has largely prevented reform of the energy sector to date, ten years after independence. Unlike Ukraine's neighbours, such as Poland and Hungary, building a complete set of fully functional national institutions and the accompanying expertise is proving to be a very long-term endeavour.

Enabling Environment

We have learned that the best way to encourage the Canadian private sector to pursue trade and investment opportunities in Ukraine is to assist Ukraine in building functioning, comprehensible and predictable legal, judicial and financial systems. Our past programming has proven, on several occasions, that simply providing Canadian firms with contributions to pursue activities in Ukraine in the expectation that they would lead, in the short term, to investment opportunities has been expensive and ineffective in the absence of a familiar legal, economic and political environment.

Be More Proactive

Similarly, we have ascertained that if we wish to make an effective, targeted and efficient intervention and contribution to Ukraine's democratic and economic development, we must take a more directive role in programming. Our programming in the past, with very few exceptions, relied on the identification of needs by Canadian institutions working with their Ukrainian partners. As a result, we feel that we may have missed some opportunities to advance the reform process more quickly than has been the case. We must be more strategic, in a smaller number of interventions that dovetail with and complement the work of other donors in Ukraine, and that have meaningful buy-in on the part of the government of Ukraine. Similarly, our previous programming was dispersed among a number of sectors, and we did not encourage strongly enough the development of synergies between individual Canadian projects or with those of other donors in order to increase the impact of our interventions.

Be Flexible

While the process of reform in Ukraine can be described to date as being relatively slow, what is changing quickly is the context in which donors are operating: key players within government and other institutions change regularly, legislation and regulation are enacted and canceled frequently, and the overall environment is unpredictable. As a result, Canada has learned that its program of technical cooperation must be nimble and flexible in order to remain relevant and effective. Similarly, we must be flexible in responding to Ukrainian commitments to reform, many of which are not followed up by concrete action.

Co-ordination/Partnership

CIDA has also learned that in order for Canadian programming in Ukraine to be effective and to have lasting results, we must work closely with our partners in other Canadian government departments, in order to ensure that Canada is presenting a coherent and unified view on a particular foreign policy or other issue. We have also learned that impacts can be multiplied, and resources used to their best advantage if we encourage synergy, cooperation and coordination within the portfolio of Canadian-funded projects, as well as between Canadian-funded projects and those of other donors.

Best Advantage of Canadian Resources

We have learned that the Ukrainian community in Canada, through organizations such as the Ukrainian Canadian Congress, can be effective sources of information and advice on developments in and technical cooperation programming for Ukraine, and can play an active role in implementing Canadian technical cooperation programs. Members of these organizations, many of who volunteer their time to assist Ukraine, have made significant contributions to our program.

OTHER DONOR ACTIVITIES

A complete table of other donor activities in Ukraine is appended to this programming framework. This section provides a capsule overview of the principal foci of the various donors' strategies for Ukraine.

Economic Transition

The area of economic transition is a principal focus for most of the other donors. Assistance in the area of economic transition is taking place primarily at the national level, although this assistance will have a filter-down effect to the oblast and local levels.

Principal areas of focus for other donors are on systemic reform, with great attention being paid by several donors (the United States, the European Union, the World Bank and the European Bank for Reconstruction and Development in particular) to reforming the macroeconomic environment. Activities in this regard will centre on the Ministries of Economy and Finance in order to assist in the reform of the budget process, and the development of a market-oriented taxation system that will encourage voluntary compliance.

Work is being, or will also be, undertaken by other donors in the reform of the banking sector, in particular in bringing Ukraine's banking legislation and regulation, supervision and practices in line with international, in particular European Union, standards, in addition to the reform of the existing banking sector, including bank restructuring and supervision. Work is also underway that will ensure that credit is available at affordable terms to the private sector, with a particular focus on lending to small- and medium-sized enterprises. Finally, some donors, notably the international financial institutions, will be working with Ukraine to identify additional financial mechanisms, such as asset-based lending, which may be appropriate to ensure credit for the private sector. Given the modest size of Canada's technical cooperation budget for Ukraine, we have chosen to make the majority of our contributions to reforming the macroeconomic environment in Ukraine through the international financial institutions, most notably the EBRD, in contributing to the development of financial services for small and medium-sized enterprises. By channeling our contributions through the International Financial Institutions (IFIs), we are able to multiply the impact of our efforts to this massive undertaking.

Governance

As with economic transition, governance is also a principal focus for the donor community.

Most donors are concentrating on two key areas related to governance: civil society, and reform of legal and judicial reform. Much international attention is being paid to increased citizen participation and ensuring that the population is equipped with the tools necessary to hold their governments – at the municipal, oblast and national levels – accountable for their actions. In particular, donors are working to ensure that the legislative framework in support of non-governmental organizations is in place which will allow NGOs

to provide a voice for the Ukrainian population, and to raise funds to facilitate their activities without the burden of excessive taxation.

In the area of legislative and judicial reform, donors are concentrating principally on two key areas:

- bringing legislation in line with that of the European Union, particularly in priority areas such as competition policy, promotion and protection of investment, financial services, standards and certification, taxation policy, intellectual property rights, and environment; and
- reform of government at the municipal level, in order to strengthen the capacity of oblast and municipal governments to cope with the eventual devolution of powers related, in particular, to budgeting and the delivery of basic services.

Other donor activities at the national level include interventions that will bring about court reform to increase the independence of the judiciary, enactment of civil and criminal codes that conform to international standards, and some continued support for the reform of the public service. Canada has also been an active participant in this area, through efforts to reform the judicial system, develop an independent notary profession, and through integrity building activities in the public sector.

Social Sector Reform

Analysis indicates that three areas are receiving the bulk of donor attention:

- pension reform;
- employment insurance; and
- health care delivery.

Most donors are devoting much attention to the issue of pension reform. Work is underway to develop and implement a three-pillar pension scheme, which includes a solidarity element, a mandatory contribution-funded element, and a safe, voluntary private pension fund. In addition, donors are working to develop a national database of pensioners and workers, as well as actuarial pension models that will seek to ease the burden of pension payments on the national budget.

Donors, in particular the United Kingdom and the European Union, are devoting assistance to increasing Ukraine's capacity to monitor and analyze developments in the labour market, the development of effective employment creation schemes, and improved training and retraining capacity of the labour force in the context of a market economy.

Health care is the third of the social services to which donors are devoting their resources, and the area of social sector reform to which Canada has devoted its resources. Interventions in the health sector focus on two key

areas: eradicating infectious diseases, and reform of the health care delivery system itself. In the area of eradicating infectious diseases, donors, in particular the World Bank, have developed and are implementing programs aimed at the prevention of tuberculosis, HIV and AIDS. Canada is a lead donor in implementing programs that promote public education and responsibility for healthy lifestyles and prevention of alcoholism, smoking, HIV/AIDS, and sexually transmitted diseases.

Reform of the health care delivery system is also a preoccupation of donors, notably the United States. Activities are underway or have been planned that will assist in the restructuring of the delivery of health care through the introduction of primary health care, family medicine and the provision of basic medical equipment, as opposed to the highly specialized model of health care currently in place in Ukraine.

Agriculture

Interventions in the restructuring of Ukraine's agriculture sector focus on three key areas:

- land privatization;
- development of agricultural markets; and
- the development of agricultural support services.

Much work has already been undertaken in the area of land privatization. Activities have to date assisted in the reorganization and privatization of farmland, training of farmers in the operation of private farms, and the like. Donors, including Canada are working to complete the process of de-collectivizing farms through initiatives that have included the passage of a land code, and the titling of privatized land, as well as aligning Ukraine's policy, legal and regulatory environment with a market-oriented agricultural sector.

Provided that the government of Ukraine demonstrates a political commitment to the implementation of continued agricultural reform, donors are planning to undertake projects that will assist in the development of agricultural markets. Specifically, donors, in particular the United States, have developed projects that will assist in increasing access to agricultural inputs through competitive markets, access to credit, access to information about market opportunities and an improvement to the market infrastructure that would allow for agricultural sales outside of state channels.

Finally, other donors, in particular the United Kingdom, are planning on introducing projects that will improve the operation of the private farms themselves. Such activities will include the development of new advisory services, improvement of farm and agribusiness financial services, and other activities that will allow the rural population to work in the new (and developing) market-based agricultural environment.

Environment

Awareness of the importance of environmental protection in Ukraine is not widespread, although there has been recent recognition on the part of Ukrainian officials that the country will have to improve its track record in this area. The donor community has also identified the environment as an area of importance for Ukraine, and has been working with the Ukrainian government and business to assist the country in improving its policy and legal framework to develop and enforce environmental regulation. It is thought that such activities will assist Ukraine in meeting its international obligations, as well as in attracting foreign investment. Activities planned by the donor community involve both institutional capacity-building of the Ministry of Environment and Natural Resources, as well as working with local government and industry to improve environmental responsibility. Work must also be done in particular in working with some of Ukraine's most polluting industries, in demonstrating the longer-term economic benefits of environmental protection in order to increase support for the environment among private sector businesses. Other donors, in particular the United States and the United Kingdom, are active in working with some of the most environmentally damaged areas of Ukraine, in particular, the Donbass and Donetsk basin in south-eastern Ukraine.

Canada's principal undertakings in the area of the environment have focussed on the environmental management of the country's largest river, the Dnipro, as well as on helping Ukraine to honour its commitments under the Kyoto Protocol on climate change.

Energy

In July 1998, after the failure of the government of Ukraine to implement the Financial Recovery Plan that the IMF approved for Ukraine's crucial energy sector, the World Bank, in concert with many international donors, including Canada, significantly reduced or ceased their programming in the energy sector.

Canada, in concert with the World Bank and other donors, has developed benchmarks that the government of Ukraine must meet before programming in the energy sector can be considered. These benchmarks have not yet been met, and as such Canada, and other donors, do not feel that the environment is conducive to a return to technical cooperation programming in the energy sector.

Other Central and Eastern European Country Donors

Recently, other countries in central and eastern Europe, notably Hungary, the Czech Republic and Poland, all of which were previous recipients of Canadian technical cooperation, have emerged as potential donor countries with an interest in assisting Ukraine. As the recent reform experiences of these countries will in many cases be very relevant to the Ukrainian context, we will closely coordinate and discuss Canadian programming in Ukraine to determine areas in which we can work in collaboration, or in which the central and eastern European countries may be more appropriate providers of technical assistance to Ukraine.

PROGRAMMING FRAMEWORK

Clearly, defining a focussed PF for Canadian technical cooperation in Ukraine is a challenge for a donor with financial resources on the scale of Canada's. As identified already in the context section, the primary needs include:

- political, administrative and economic reform;
- strengthening of the agriculture sector;
- rebuilding a tattered social safety net;
- improving gender equality; and,
- increasing capacity for environmental sustainability.

As such, we have been forced to conduct a careful analysis of the options open to us, with a view to having the maximum impact with our relatively modest resources. In our view, there are essentially four programming options:

- A. The status quo** would see our programming continue essentially in the same direction as outlined in our 1997 strategy, allowing programming on a primarily responsive basis to any project which contributes to Ukraine's reform program. Our programming would remain diffuse and impacts, particularly at the macro level, difficult to measure – our current project portfolio stands at approximately 40 projects in 11 different sectors or thematic areas. Synergies among Canadian projects as well as with those of other donors would be difficult to foster. The advantage to this approach, however, is that it is already well known and capitalized upon by our Canadian interlocutors, and it would allow us to respond to virtually any reform-related request from the government of Ukraine. Canada's program of technical cooperation, operating in this fashion in the past has been deemed by Ukrainians to be faster, more flexible, and more appropriate than those of other donors.
- B. Concentrate exclusively on the big picture.** This would entail programming only at the macroeconomic level, and at the highest levels of political reform, largely in cooperation with the international financial institutions and other multilateral organizations. While any programming in which Canada engaged in this regard would be valuable in terms of building an enabling environment in Ukraine, and channeling funds through the IFIs or other multilaterals would be less administratively burdensome for CIDA staff, Canada's contribution would make very little contribution in the face of the sweeping reforms which are still needed in these areas, and our available funding would allow Canadian projects to operate only on the margins of any significant activities being undertaken by those donors. Canada's programming would become essentially invisible.

- C. Concentrate our programming on a limited number of sectors,** focussing Canada's program in a few selected areas in which Canada could be seen to have a comparative advantage. The advantage to this approach is that work in key sectors (e.g. agriculture) could have economic payoffs for Ukraine and possibly for Canadian firms interested in working in Ukraine. However, reforms in a particular sector in Ukraine rely on other reforms taking place in other sectors (e.g. agricultural reform also relies on reform in the transport sector and on the banking sector, to provide farmers with access to credit), as well as continued political will for reform in that sector, which has not always been the case. Further, the sectoral concentration approach has been attempted in the past by other donors in Ukraine, and has been found to be lacking (e.g. energy).
- D. Concentration on governance.** This approach would allow Canada to have an impact in improving governance in Ukraine from the top down, i.e. by strengthening key governance structures and institutional capacity, as well as working from the bottom up to strengthen civil society and enhance respect for rights and democratic principles in response to Ukrainian priorities. This two-level approach would allow our comparatively small interventions to have significant impact in particular areas of need, which would allow further reforms to take place (e.g. assistance with the development of a governance structure for agricultural credit can allow individual farmers to increase their production, generate greater income, and improve performance of the sector as a whole). In the area of civil society, again, relatively small interventions can increase the capacity of non-governmental organizations to hold their government to account, and to press their government for needed reforms.

A narrow focus on governance would appear to prevent Canada from contributing to CIDA's other three key agency development results of economic well being, social development and environmental sustainability and regeneration in Ukraine. However, a focus on governance would not exclude programming which could assist in reforming certain governance-related aspects of the themes, as is outlined below.

The possible disadvantage to focussing exclusively on governance could be the reaction of our Canadian and Ukrainian interlocutors, who are used to the more flexible, multisectoral and responsive approach to programming in Ukraine as set out in our 1997 strategy. However, such a focus would still allow for some flexibility in terms of the sectors of intervention selected, which could change over time as circumstances shifted. Other risks associated with adopting this option are included in the following section, as well as in the performance measurement framework in Annex IV.

As noted in the analysis in the first section of this document, many of Ukraine's development challenges fall in the area of governance. This approach would allow us, depending on the reform environment of the day, to focus our resources more on improving governance structures, in times when the government of Ukraine is more open to reform, or more on strengthening civil society in times in which the public sector reform environment is less welcoming. It would also allow, as noted in the "Lessons Learned" section, for us to be more strategic and proactive in our programming, and thus take advantage of opportunities to promote the reform agenda as they arise, while at the same time developing stronger synergies amongst Canadian projects and with other donors.

These reasons, combined with the more significant impact and attributable results which Canada can have, have led us to believe that focussing Canada's interventions on governance will provide Ukraine with the best Canadian programming possible. We have therefore chosen to orient our strategy along this axis.

Goal and Objectives

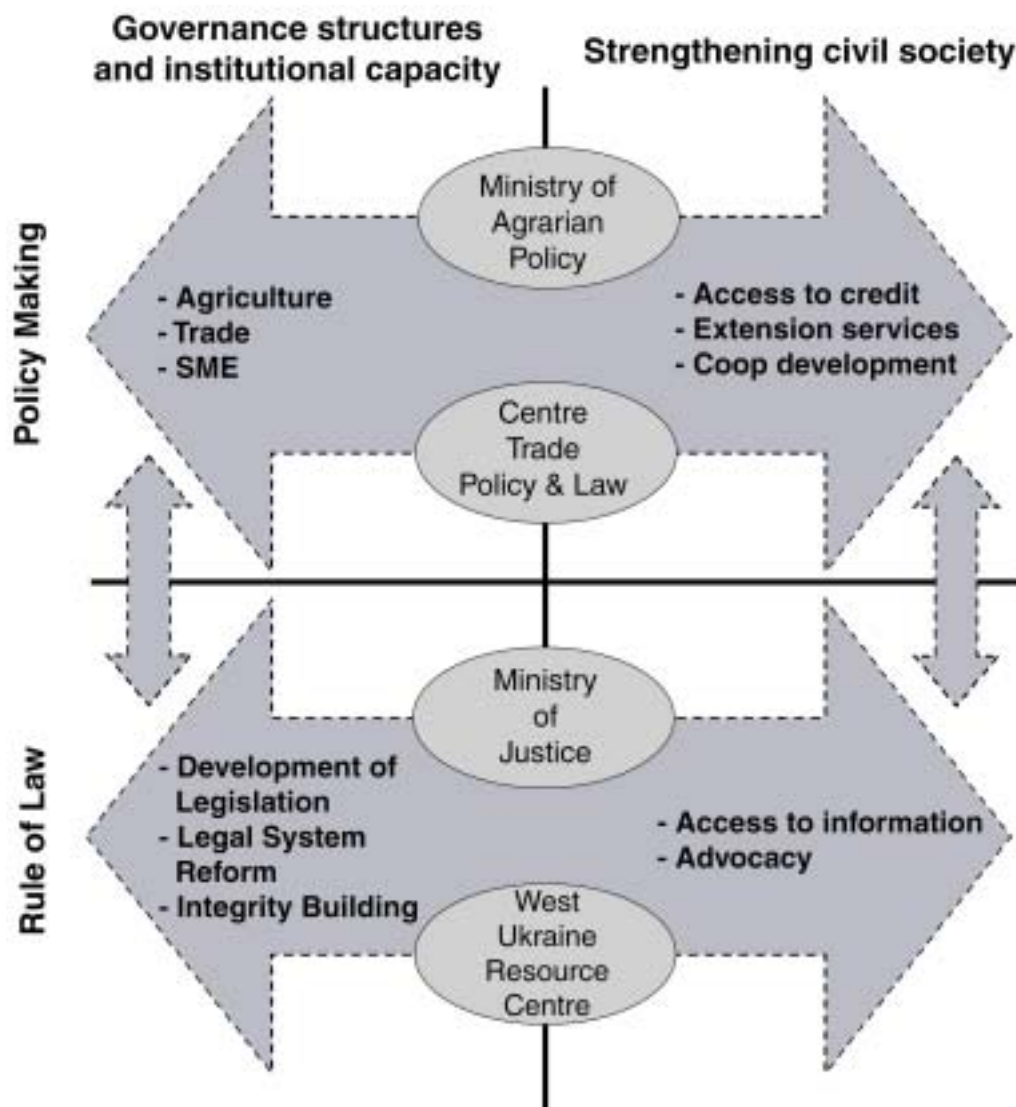
The overall goal of Canada's program of technical cooperation with Ukraine is to ensure the successful integration of Ukraine into the global market economy and to assist in the peaceful development of a democratic system of government driven by the rule of law.

The objectives of Canadian programming for the coming five years will be to ensure the development of sound governance in Ukraine. Specifically, this will entail ensuring that the institutions of governance are strengthened, as well as to ensure that a sound foundation of civil society is developed and that its agents are fully engaged in the functioning of a democratic society. Our program will seek principally to address the Key Agency Development Result of Governance, but through our work in this area, will support the remaining three Key Agency Development Results of Economic Well Being, Social Development, and Environmental Sustainability and Regeneration.

Principal Programme Elements

As per figure 1 (Ukraine - Program Coherence), programming will be developed along two axes: the first, using a combined top-down/bottom-up approach for greatest impact, will focus on governance structures and institutional capacity on the one hand, and strengthening civil society on the other. The second axis will be the range of interventions to be considered, with one level being policy making, and the other the rule of law.

UKRAINE – PROGRAM COHERENCE



Note: These examples are meant to be illustrative of program coherence only, and do not represent a restriction of Ukraine country program elements to these areas.

This approach allows for a maximum of coherence within the program, since policy-making and rule of law issues can be addressed at both the macro level (governance structures) and the micro level (civil society), and the impacts achieved in one quadrant reinforce progress made in others. We will seek, therefore, to identify areas in which work undertaken in policy development (for example, development of legislation and policy related to deposit insurance in the banking sector) directly supports initiatives which Canada is pursuing in the strengthening of civil society (for example, the development of credit unions to provide safe institutions in which Ukrainians can deposit their savings). At the same time, the program will remain flexible enough to be able to concentrate on sectors or specific interventions falling within these two axes as reform priorities dictate.

It should be noted that Canadian support for reform in Ukraine will also be concentrated in those areas and sectors in which we judge that the government of Ukraine has made a real, full commitment to reform. We have learned through our programming in the past ten years that attempting to work in areas in which the government has not made a commitment to reform, in which other interests present a significant opposition to reform, or in which our interlocutors are not equipped for reform, do not lead to significant results. In focussing on areas in which the government of Ukraine has committed to reform, however, we feel that our program will encourage long-term change and sustainability, and will thus reinforce our ability to make successful interventions in other areas.

Governance Structures and Institutional Capacity

Principally, Canada will support initiatives that contribute to changing the way the Ukrainian public sector conducts its business. On the policy-making side, we will support efforts that lead to improvement in the domestic capacity for development, analysis, implementation and management of policy (as opposed to simply providing policy advice), in order that decisions made by bureaucrats and the government are as fully informed as possible. In this fashion, we wish to assist Ukraine in governing both its domestic and international affairs. Possible areas of intervention in this regard will likely include programming which will assist Ukraine in building an enabling environment for private sector development, particularly through the all-important agriculture sector and small and medium enterprises (SMEs), and integration into the global economy, including accession to the World Trade Organization. Other possibilities include supporting Ukraine's full participation in western democratic structures such as the Council of Europe, and responding to Ukraine's frequent calls upon Canada to assist in developing the capacity to effectively bridge the west and the east, and to build its capacity to develop foreign policy in the presence of a large, influential neighbour. It will allow us to assist in changing the role of Ukraine's government from one of control to one of support for a particular sector. Possible partners in such projects could include, as examples, the Ministry of Agrarian Policy, and the Centre for Trade Policy and Law.

On the rule of law side, Canadian efforts will also build upon our past successes in the reform of Ukraine's legal and judicial system. Working with the Ministry of Justice and other key partners, assistance will likely concentrate on the development of legislation (possibly with regards to agriculture, SMEs and trade in order to link it with the policy-making side), legal system reform, and building integrity (and reducing corruption) throughout government structures.

Strengthening Civil Society

The second element of our focus on governance will assist Ukraine in developing a healthy civil society and empowering the Ukrainian population to ensure that they can play an effective role in their nation's affairs – a cornerstone to democratic society. At the time of writing of this framework, Ukraine's population is beginning to discover its voice and the impact that

public opinion can have on the functioning of the government. They are learning about: the importance of access to free and independent media and other sources of information; the power that non-governmental organizations can have in influencing developments in their country and demanding accountability and transparency in the activities of their elected officials and the public service; and, of their ability to deliver social and other services themselves. Canada's programming on the one hand will translate the progress being made on the policy-making front, whether in agriculture, SMEs, trade, or other relevant areas, into concrete assistance at the grassroots level to take advantage of the changing political environment. This could include projects to increase access to credit, through credit unions and/or banks, for newly privatized farms or agricultural co-operatives or SMEs; the development of relevant extension services and training for farmers; and the development and strengthening of co-operatives (whether agricultural, business or credit unions).

Similarly, to support reforms undertaken on implementing the rule of law, activities at the level of civil society should be designed to increase the capacity of non-governmental organizations to undertake advocacy activities; to increase government/NGO dialogue; to build awareness of the importance of, and strengthen the capacity of, a free and independent mass media; to ensure that NGOs and the general public have access to, and know how to use, the information to which they are entitled in a free and democratic society; and, to encourage individuals to become full members of Ukrainian society.

Programming Resources

Given the enormity of the challenge in improving governance in Ukraine, and our annual budget of approximately CAD 19 million, the selection of initiatives for Canadian funding will have to be targeted and focussed, to ensure that our interventions will produce meaningful results. Responsive projects, proposed by new or existing Canadian partners, will continue to be considered, as long as they fall within the programming priorities identified above and in keeping with the interests of our Ukrainian interlocutors. This responsive approach has the advantage of leveraging additional funds and other resources, since the Canadian partners selected in this way are expected to make a significant contribution to the implementation of the project (normally 15% or more of the project value), and their Ukrainian partners are also expected to make a commitment to the achievement of the project. The partnerships developed in this way lead to a greater involvement by the Canadian partners, and contribute to the strengthening of our overall bilateral relations with Ukraine.

In cases where no proposals are being made to address key issues as identified above, or where CIDA has identified a particular need in an area of Canadian expertise, we may choose, in coordination with the relevant Ukrainian partner(s), to develop initiatives in a proactive way, where the Canadian partner would then be identified through competitive bidding. Partnerships with other bilateral donors could also be considered.

Through a combination of both responsive and directed project and program development, it is anticipated that as currently funded projects expire, Canada's program of technical cooperation with Ukraine will become more focussed on a smaller number of projects or programs which will be more ambitious and far-reaching undertakings. We anticipate that this level of concentration should be achieved by the first quarter of the calendar year 2003.

In addition to the bilateral programming which has been discussed above, other programming mechanisms available to CEE Branch will also be used to target the identified priorities. We intend to strengthen our cooperation with our multilateral program, in order to increase partnership with the EBRD and World Bank to deliver assistance on issues such as SME strengthening and improved access to credit. We will also seek to increase the strategic use of the Branch's regional program, with its range of partnership-style programmes, and will ask these programs to concentrate in Ukraine on key issues, such as training and assistance to SMEs through CESO or other programs. To the extent possible, the Renaissance Eastern Europe program (REE), which provides assistance to Canadian companies exploring business opportunities in the region, will be used to encourage joint ventures or other business partnerships in priority sectors, such as agriculture, which may emerge as being ripe for reform or investment efforts.

Crosscutting Themes

Apart from our focus on governance, the Canadian program will be guided by three crosscutting themes that must be factored into any Canadian technical cooperation programming: environmental sustainability, youth, and gender equality.

Canada's program of technical cooperation in Ukraine has been sensitive to environmental issues since its inception. In addition to the specific areas of technical cooperation that CIDA will support (for example, the Dnipro River initiative and capacity building to help Ukraine meet its commitments under the climate change convention), environmental considerations will be taken into account in all new programming and the requirements of the *Canadian Environmental Assessment Act* will be met.

As noted in the "Context and Reform Challenges" section, gender equality remains an issue in Ukraine that requires serious attention. Canada will ensure that all technical cooperation initiatives approved for funding incorporate gender equality considerations. In addition, Canada will seek, through its focus on governance and civil society, to incorporate initiatives that bring particular focus to gender equality.

We have learned that the most powerful groups in society in calling for reform can be those which have not inherited the Soviet mindset: the youth of Ukraine. Capitalizing on their energy and thoughts to bring about pressure for reform on official structures, as well as preparing today's youth for positions of

influence in the future, can be an extremely effective means of building consensus for reform and ensuring a reform-oriented bureaucracy and civil society in the future. Therefore, future programming in Ukraine must include youth.

RISKS

There are three key risks inherent in the implementation of this strategy of technical cooperation with Ukraine.

The most serious and unmanageable risk – and fortunately the one that we judge to be the most unlikely – is the risk that Russia's influence on Ukraine will become so great that Ukraine will effectively be reabsorbed into the Russian sphere of influence and will abandon its statehood. Should this occur, the Canadian government would be required to take a serious look at its entire approach to technical cooperation with Ukraine, and would almost certainly be required to redraft its strategy completely.

A second serious risk is the volatility of Ukraine's political system, the fragility of the present Parliamentary majority, and the vulnerability of those officials in key positions of power vis-à-vis their openness to, and ability to take advantage of, Canadian assistance for reforms. In our view, this risk is mitigated by our approach of working, when necessary and appropriate, primarily with bureaucrats in the public service, by working with citizens' groups to demand accountability of the public service, and to empower them to call for improvements to their standard of living. In this fashion, we are more confident that no matter which politicians may be in power, we are nevertheless strengthening the Ukrainian system of public administration and therefore having a lasting, positive impact on the way in which Ukraine is governed.

The third risk to our technical cooperation program is that the economy of Ukraine will experience a massive deterioration, and economic reform will cease or be reversed. In our view, however, our strategy will assist Ukraine in developing policies and regulations that will serve to prevent such an erosion of the economy. In the case that such an erosion were to occur, we will have assisted in the development of domestic support services that could assist those enterprises that are most hard hit by economic downturn.

A full risk analysis is included in the performance management framework in Annex IV.

CONCLUSION

What has become clear to us over the past ten years of programming in Ukraine is that a long-term commitment on the part of donors is required. We have seen that development in Ukraine is a long-term prospect, which will almost certainly require a generation change before the pace of reform increases considerably. Canada has made this long-term commitment, and has also amassed considerable experience in implementing projects in Ukraine – some experiences have been less successful than others, but all have been educational.

Our program in Ukraine is relatively small in comparison to other donors, and in comparison to the development challenges which we face. It is extremely important, therefore, that we focus on those interventions which will have the best chance to advance the reform process, change the enabling environment, and improve the relationship between Ukraine's government and its people.

Canada has a number of distinct advantages in pursuing programming in Ukraine. We have a strong and talented Ukrainian-Canadian community which is devoted to improving conditions for those still living in Ukraine. Combined with Canada's collaborative approach to problem solving, our program of technical cooperation in Ukraine is viewed in high regard by the government of Ukraine, and our capacity to influence change is much greater than the size of our program.

We anticipate that we will continue to learn from our experiences in implementing this programming framework for Ukraine, and that our increasing knowledge of the reform context in Ukraine will continue to inform and improve our programming interventions in the coming five years.

Annex I – Ukraine Quick Reference ²¹

Population	49,242,000
Area	603,700 km ²
GDP	US\$39.3 billion
GDP growth	6% (2000)
GDP per capita	US\$750
Life expectancy	60.2 years (male), 71.9 years (female)
Infant mortality	14 per 1,000
Adult illiteracy rate	0%
Gross primary enrolment (% of school age children)	100
Population growth:	-0.7%
Human development index rating:	78 of 174
Transparency International	83 of 91
Total exports	US\$12,463 million
Total imports	US\$12,945 million
Principal exports	ferrous metals (38.3%), machinery (12.8%), chemicals (13.1%), food (11.7%), fuels (7.4%), industrial products (4.2%)

²¹Encyclopedia Britannica, 2001 Year Book, and Report and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Proposed First Programmatic Adjustment Loan (PAL I) in the Amount of US\$250,000 Million to Ukraine, August 23, 2001.

Annex II -- Other Donor Activity

Donor	Principal Areas of Intervention	Main Projects	1999 Total Assistance to Ukraine²²
United States of America	Economic reform, democracy and governance, social sector	<ul style="list-style-type: none"> • accelerated private sector development • sustainable social services and benefits • increased citizen participation in political and economic decision-making 	\$307.7 million
European Union	Trade, investment, democratic and economic transition, environment, energy and nuclear safety	<ul style="list-style-type: none"> • government reform • agricultural post-privatization support and extension services • water quality assessment (Bug River basin) 	\$70.8 million
United Kingdom	Macroeconomic and public finance management, good governance, private sector development, rural livelihoods, social protection	<ul style="list-style-type: none"> • Ukraine trade policy capacity development • local and regional government institutional strengthening • assistance to the State Committee on Entrepreneurship • re-employment 	\$31.5 million
Germany	Assistance for persons of German descent living in Ukraine, small- and medium-sized enterprise support, advisory services for the government	<ul style="list-style-type: none"> • support for Germans living in the Odesa area • support for German investment 	\$80.7 million

²²1999 OECD data, in US dollars. Includes official aid to countries in transition (OA), other official flows (OOF), and private assistance.

Netherlands	Environment	<ul style="list-style-type: none"> • protection of human health from pollution • improving drinking water quality 	\$35.4 million
Sweden	Economic development in agriculture, social development (primarily gender equality)	<ul style="list-style-type: none"> • Land cadastre development • agribusiness development and reform 	\$21.8 million
Switzerland	Displaced persons, social training programs, nuclear safety	Not Applicable	\$31.4 million
World Bank	Financial reform (public and private), property rights, social services, private sector development, environment	<ul style="list-style-type: none"> • Programmatic Adjustment Loan • Institutional development project • Pilot rural finance project 	\$420.2 million
European Bank for Reconstruction and Development	Small- and medium-enterprise development, private sector credit, energy reform, creation of an enabling environment for foreign investment	<ul style="list-style-type: none"> • Small- and medium-sized enterprise line of credit • FUIB agribusiness credit facility • Starovehevo power plant • KyivStar GSM mobile communications 	\$51.2 million

Annex III -- Current Portfolio of Projects

Title	Date	CIDA Contribution (CAD)	CEA	Ukrainian Partner
Environmental Management Development in Ukraine- II	1997/07-2001/12	4,208,000	International Development Research Centre (IDRC)	<i>N/A - Various</i>
Capacity Building II	1999/07-2001/12	500,000	United Nations Development Programme (UNDP)	<i>Crimean Integration and Development Program</i>
IFC/CIDA Corporate Governance Training Programme	1999/06-2001/12	2,897,028	International Finance Corporation (IFC)	<i>International Finance Corporation (Kyiv)</i>
Land Privatization & Farm Reorganization	1998/07-2001/12	3,748,649	IFC	<i>IFC (Kyiv)</i>
Policy Advice for Reform in Ukraine	1997/05-2002/08	6,880,000	Canadian Bureau for International Education (CBIE)	<i>N/A - Various</i>
Small Business & Economic Development in Ivano-Frankivsk (SBEDIF)	1996/01-2001/12	4,914,944	Confederation College of Applied Arts & Technology	<i>SBEDIF Centre</i>
SIMP 2001- Ukraine	2001/10-2001/11	45,000	Consulting & Audit Canada	<i>Cabinet of Ministers of Ukraine/ President's Administration</i>
Judicial Reform Project	1996/06-2002/03	2,178,300	Office of the Commissioner for Federal Judicial Affairs	<i>Ministry of Justice</i>
Elections Assistance 2002	2001/09-2002/04	100,000	Canadian Embassy in Ukraine	<i>N/A - Various</i>
Canada Fund- 2000/2001	2001/04-2002/06	350,000	Canadian Embassy in Ukraine	<i>N/A - Various</i>
Economic Modelling & Forecasting in Ukraine	1999/03-2002/06	1,795,338	Conference Board of Canada	<i>International Centre for Policy Studies</i>
Canada- Ukraine Environment Cooperation Programme	1999/03-2002/06	1,326,600	Institute for Public Administration of Canada (IPAC)	<i>Ministry of Ecology and Natural Resources</i>
Civil Society, Community Roots	1998/07-2002/07	3,971,564	CBIE	<i>Western Ukraine Resource Centre</i>

Reforming Social Services	1999/04-2002/09	2,241,400	University of Manitoba, Faculty of Social Work & Canadian Centre on Disability Studies, Winnipeg	<i>L'viv Polytechnic</i>
Youth for Health	1998/06-2002/09	4,054,087	Canadian Society for International Health	<i>State Committee for Family and Youth</i>
Microfinance Bank of Ukraine	2000/08-2002/12	1,250,000	EBRD	<i>Microfinance Bank of Ukraine</i>
STCU-II	1997/09-2002/12	3,900,000	University of Manitoba	<i>Science and Technology Centre of Ukraine</i>
The Global Distance Learning Project (GDLN)-Ukraine	2000/03-2003/03	2,700,000	The World Bank/World Bank Institute (WBI)	<i>World Bank (Kyiv Resident Mission)</i>
Beef & Forage Development Project	1999/01-2003/03	2,392,410	Saskatchewan Trade & Export Partnership (STEP)	<i>Various</i>
Democratic Education Project	1997/09-2003/03	2,138,000	Queen's University, Centre for the Study of Democracy	<i>Ministry of Education</i>
Ukraine Small & Medium Sized Enterprises Line of Credit-II (SME II)	1997/02-2003/03	3,000,000	European Bank for Reconstruction & Development (EBRD)	<i>Forum Bank</i>
Trade Policy & Capacity Building in Ukraine	2000/05-2003/05	3,000,000	The Center for Trade Policy & Law (CTPL)	<i>Centre for Trade Policy and Law - Ukraine</i>
People's Voice	1999/08-2003/06	2,000,000	World Bank	<i>International Centre for Policy Studies</i>
Public Policy Capacity Building-Ukraine	1999/03-2003/06	4,531,435	CBIE	<i>Academy of Public Administration</i>
Canada Ukraine Baltic Economic Management Training Programme (CUBE)	2000/09-2003/09	2,960,000	Canada Ukraine Baltic Economic Management Training Programme (CUBE)	<i>Ministry of Economy and European Integration</i>
Controlling Corruption in the Public Sector	1999/01-2003/09	1,674,200	Department of Justice	<i>Ministry of Justice</i>
Canada Ukraine Legislative & Intergovernmental Project	2000/08-2004/03	2,700,000	University of Alberta	<i>Verkhovna Rada of Ukraine</i>

Reform of the Notarial Profession- II	2001/04-2004/06	1,300,000	Order of Notaries of Quebec	<i>Ministry of Justice/ Chamber of Notaries</i>
Ukraine Gender Fund (UGF)	2000/09-2004/12	1,500,000	Canadian Embassy in Ukraine	<i>N/A - Various</i>
Foreign Policy & Trade Analysts Professional Development Project	2000/10-2005/06	1,949,700	Centre for International & Strategic Studies, York University	<i>Ministry of Foreign Affairs of Ukraine</i>
STCU-III	2000/11-2005/06	6,500,000	University of Manitoba	<i>Science and Technology Centre of Ukraine</i>
Chornobyl Shelter Fund	1997/12-2007/12	US\$32,200,000	EBRD	<i>EBRD</i>
Small Business and Economic Development in Ivano-Frankivsk (SBEDIF) – Regional Networks	2002/01-2005/04	3,600,000	Confederation College, Parkland Community Futures, University of Waterloo	<i>SBEDIF Centre</i>

Annex IV -- Performance Measurement Framework

Program Performance Framework

Goal: To integrate Ukraine into the global market and to develop a democratic system of government driven by the rule of law. Objective: Development of good governance in Ukraine by strengthening the institutions of government and ensuring the sound development of civil society.	
Development Impacts	Performance Indicators
Governance 1) Strengthened governance structures and institutional capacity in key areas: <ul style="list-style-type: none"> ➤ Public administration and judiciary ➤ Private sector development ➤ Banking and financial services ➤ Agriculture ➤ Trade ➤ Social services and health 2) Strengthened civil society and enhanced respect for rights and democratic principles: <ul style="list-style-type: none"> ➤ Increased access to credit ➤ Availability of extension services ➤ Availability and access to information by NGOs and general public improved ➤ Agriculture sector strengthened ➤ Increased role and advocacy of NGOs and public in government decision-making 	<ul style="list-style-type: none"> ➤ Increased analytical and management capacity of public sector ➤ Extent of development, implementation and enforcement of policy and legal reform and consistency with international standards ➤ Independence, fairness and transparency of roles and responsibilities of private and public institutions ➤ Reduced rates of corruption ➤ Independence of the judiciary ➤ Increased participation in western democratic structures ➤ Increased registration and operation of new businesses* ➤ Stability and viability of the financial sector ➤ Increased deposits in Ukrainian financial institutions ➤ Changes in availability and provision of credit to organizations and businesses* ➤ Changes in provision and participation of target groups in extension services ➤ Increased media freedom and access to information

	<ul style="list-style-type: none"> ➤ Increased participation in of public in democratic processes* ➤ Changes in participation and influence of NGOs and public on government decision-making*
Economic Well Being <ul style="list-style-type: none"> ➤ Integration into global market economy ➤ Equitable economic growth and distribution of wealth ➤ Emergence of a viable middle class ➤ Improved living standards of poor 	<ul style="list-style-type: none"> ➤ Accession to, participation in western economic structures ➤ Increased foreign and domestic investment ➤ Increased GDP per capita ➤ Increased rates of consumer consumption ➤ Decreased rates of poverty*
Social Development <ul style="list-style-type: none"> ➤ Increased accessibility and affordability of social services ➤ More efficiently managed key social services (e.g. health sector) 	<ul style="list-style-type: none"> ➤ Changes in availability and use of health services ➤ Decreased mortality rates* ➤ Improved health of population* ➤ Increased rationalization of key social services
Environmental Sustainability <ul style="list-style-type: none"> ➤ Increased environmental management capacity ➤ Increased respect for environmental management regulation and legislation 	<ul style="list-style-type: none"> ➤ Extent to which monitoring systems in place and used in decision-making ➤ Increased enforcement of environmental legislation and regulation ➤ Increased collection of fines for violations of environmental violations ➤ Better international coordination of Ukrainian environmental management practices

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Development Impacts	Performance Indicators	Data Sources and Methods
		<ul style="list-style-type: none"> • European Bank for Reconstruction and Development • International Monetary Fund • United Nations
Economic Well Being	<ul style="list-style-type: none"> • Accession to, participation in western economic structures • Increased foreign and domestic investment • Increased GDP per capita • Decreased rates of poverty* 	<ul style="list-style-type: none"> • World Trade Organization • European Bank for Reconstruction and Development • International Monetary Fund • United Nations
Social Development	<ul style="list-style-type: none"> • Changes in the availability and use of social services • Decreased mortality rates* • Improved health of population* • Decreased rate of domestic violence* • Increased rationalization of key social services 	<ul style="list-style-type: none"> • United Nations • United Nations Children's Fund • Food and Agriculture Organization • Ukrainian Institute for Social Research • World Health Organization
Environmental Sustainability	<ul style="list-style-type: none"> • Extent to which monitoring systems in place and used in decision-making • Increased enforcement of environmental legislation and regulation 	<ul style="list-style-type: none"> • Global Environment Facility • Government of Ukraine • Other internationally recognized sources of information

Development Impacts	Performance Indicators	Data Sources and Methods
	<ul style="list-style-type: none">Increased collection of fines for violations of environmental violations	