

SIPU report for the Swedish International Development Agency (SIDA)

Under contract 'Advisory Services for EU – Ukraine, Sida ref: 2007.002743'

Date: 6 May 2008

REF: SIPU/JMWEN ASS. 02

Authors: Alan Mayhew and Kevin Prigmore

SIDA's programming for Ukrainian assistance: a new strategy to support Ukraine's European ambitions

A. Current situation

SIDA manages a comparatively large programme of assistance to Ukraine; at EUR 12 million one of the largest bilateral programmes. This assistance has given rise to a large number of relatively small programmes in a variety of sectors, which are difficult to manage efficiently with the available resources.

SIDA has a very good reputation as a donor, both in Ukraine and in the donor community. It is recognized as a neutral and concerned donor which can show admirable flexibility.

However the Paris Declaration and the EU Code of Conduct, and their associated documentation, pose a considerable challenges to the existing SIDA programme in Ukraine. The emphasis has been centred on the question of aid effectiveness and the scaling up of aid. The international community of donors and the European Union are now concentrating on the DAC criteria for evaluating development assistance; relevance, effectiveness, efficiency, impact and sustainability.

Better donor coordination, leading to joint programming and in certain cases cofinancing of projects, has once again become the major priority. In the EU, concentration is also highlighted in the EU Code of Conduct, where it is suggested that donors should concentrate on a maximum of three sectors in their activity in any one country and that these sectors should be chosen according to the comparative advantage of each donor country.

SIDA management has decided that joint programming and possibly eventually cofinancing with the European Commission should be seriously investigated. Together with a reduction in activity to around three sectors, this indicates a major transformation in the way in which SIDA operates in Ukraine.

B. Joint programming

Joint programming of aid is obviously a desirable outcome of current efforts at policy reform. There are numerous theoretical advantages concentrated on efficiency and effectiveness. There are however a number of difficulties which have to be overcome before joint programming can be realised.

Joint programming can take several different forms;

- joint programming of specific parts of the annual action programme
- joint annual programmes
- joint multiannual programming and the common framework for country strategy papers

In the current situation, the immediate and practical cooperation between SIDA and the European Commission is likely to be confined to the annual programming exercise (ENPI AAP 2009) and to certain elements only of that annual action programme.

Joint programming in the AAP 2009

Timing and the Management Cycle in the EU

The EC management cycle is particularly important in the context of joint programming. Unless preparation is undertaken at the appropriate time, it will be impossible to meet the Brussels deadlines set by the need to obtain approval of the Management Committee and the decision of the Commission.

The objective of the rather lengthy management cycle is to achieve the quality objectives of:

- relevance
- a feasibility
- effectiveness

The procedures and the details which need to be supplied will vary depending on whether it is the project, sector policy support or general budget support approach which is being used. However the management cycle remains much the same.

The first essential element is the preparation of the 'identification fiche'. This fiche checks the formal qualities of the proposal – legal basis, budget line, method of implementation and a provisional timetable – as well as the initial substantial elements. The latter include a check on consistency with European Community policy, consistency with partner policies and strategies, and identification of the main problems, an analysis of the key stakeholders and target groups, the complementarity that the proposed action

with other planned or current activities, resource is and costs, issues around the implementation of the proposal at its sustainability.

The identification fiche then undergoes quality screening by the office quality support group in AIDCO. This will normally lead to comments and requests for improvements in the identification fiche.

The second step is the preparation of an action fiche at the 'formulation stage'. At this stage a very detailed analysis of the relevance, feasibility and management of the action is required. A key part of the work to be done at this stage is the development of an adequate Logframe matrix. The Logframe will contain a series of indicators which will allow management information to be collected and analysed.

The work at this formulation stage is again assessed for quality before the proposal is sent to interservice consultation by AIDCO. The final action fiche is annexed to the Commission proposal and a file centre translation.

The proposal is then sent to the ENPI management committee for discussion with the member states. After its passage through the management committee the proposal is then sent to the European parliament and consultation. This part of the process alone takes one month after consultation with the European Parliament, the Commission takes its decision.

This whole process, from the identification fiche to the commission decision takes at least six months. **This means that if SIDA is interested in undertaking some joint programming with the Commission for 2009, the ultimate date for a decision is the end of May 2008.**

Practical questions associated with the joint programming decision

Clearly there are limitations on the arrangements for the AAP 2009. Firstly SIDA has not been assessed by the Commission services for approval for indirect centralised management, so there is no perspective of undertaking joint action under which community funding is administered by SIDA. As much of the available community finance is likely to be spent either as general budget support or sector specific budgetary support, there would be little interest in SIDA transferring its limited finance to the Commission as lead donor.

This suggests that the most appropriate financing arrangement would be parallel financing of action or actions in the programme for 2009.

The identification of the actions to be jointly programmed should depend partly on the comparative advantages of the donors. However the concept of comparative advantage is itself difficult to analyse. Apart from specific experience in certain areas of policy or in certain sectors, comparative advantage must also depend on elements such

as the size of the particular assistance programme and the flexibility of procedures of the different owners.

It is clear that SIDA has certain sectoral advantages in areas like environment and energy, as well as in certain management areas such as that public financial management. However one of the main advantages which SIDA has over the European Commission is that its procedures are far more efficient and that it is therefore able to show much more flexibility in the use of its finance.

The European Commission has budgetary allocation for assistance to Ukraine of approximately EUR 140 million annually. As we understand it, the SIDA allocation is approximately EUR 12 million. While SIDA is one of the largest bilateral donors to Ukraine, it is obvious that assistance is dwarfed by that of the European Union. With much of the Community aid being given either as general or sectoral budget support, it is probably sensible for SIDA to finance the technical assistance elements of sector or general budget support programmes. Such a policy could combine Sweden's comparative experience in areas like environment, transport and energy with its greater advantage of flexibility and the ability to deliver necessary assistance quickly.

There are several questions which need to be solved before such a programme is agreed;

- Is the partner country interested in receiving assistance in the areas agreed between Sweden and the European Commission? Would the partner country accept that in discussions of actions where joint programming was taking place between Sweden and the European Commission, the two donors jointly meet the appropriate Ukrainian authority.
- as each side would be using its own procedures under parallel financing, what degree of mutual consultation would be established in areas like tendering?
- presumably in the case of joint financing, SIDA Would be involved also in the evaluation of the programme
- presumably both SIDA and the EU will present a joint documentation to the ENPI management committee. Given that the Commission now has strict rules about identifying clearly programmes which are financed by the EU, can we assume that joint programmes would be clearly marked as such?

Joint programming for the longer term

In a longer term perspective, there is an interest to move towards joint programming for the medium and longer term. This would involve member states and the Commission jointly agreeing on Country Strategy Papers and National Indicative Programmes. A template has been drawn up for Country Strategy Papers.

As far as SIDA is concerned, there would be a minor change which will be necessary to bring the SIDA country strategy period in line with the financial framework. This would

mean that the country strategy for Ukraine which is being prepared at the current time would run to 2013 and then in 2011 or 2012 a joint country strategy paper would be drawn up.

There are a great many questions which need to be asked:

- whilst one can understand that the Commission could deal with one bilateral donor such as SIDA, will the current procedures be capable of dealing with joint programming between multiple donors
- whilst the European Union agrees a financial framework which guarantees finance for a period of up to seven years, is it possible in the Swedish case to have a similar guarantee of budgetary resources over the medium term? If Sweden does not adopt the Euro, might there also be an exchange-rate question over the medium term?
- The whole question of cofinancing would need to be raised and many questions asked (see JMWEN paper on cofinancing)
- how would deep medium-term joint programming be implemented and what evaluation methods and rules would be applied
- and many others

The complex arrangements which would need to be made to realise joint programming should be studied carefully by SIDA before proceeding.

C. The Bases of Sector/Project Selection

Ukraine's integration with the European Union has become the main thrust of SIDA assistance to that country. The logic of this change of emphasis is that European integration is the most effective antipoverty strategy that can be adopted for a European country.

However, in many ways centring an assistance programme on European integration is far more complex than adopting the aim of poverty reduction. The complexity of the European integration process makes both decisions on sectoral concentration and the adoption of indicators and targets very difficult. It also makes joint programming within the European Union potentially a very efficient mechanism for accelerating that integration.

There are several possible sources of information which can help a country to determine its objective of aid concentration. These include the following:

- the European integration strategy of the partner country
- the progress reports produce annually by the European Commission
- the EU Ukraine Action Plan under the European Neighbourhood Policy and the results of the joint assessment of the implementation of the Action Plan

- the minutes of the meetings of the seven subcommittees of the Partnership and Cooperation Agreement
- the experience of the negotiations on the New Enhanced Agreement between the EU and Ukraine
- the OECD Sigma report on public administration in Ukraine
- the country strategy papers of the European Community, the European Bank for Reconstruction and Development and the World Bank.

a. The European integration strategy of the partner country

The Paris Declaration and the EU Code of Conduct both emphasise that the programming of assistance should be essentially undertaken by the partner country. However this depends on the partner country having an administration capable of programming foreign assistance and also on the availability of a policy strategy in the partner country. In the case of Ukraine, the European integration strategy dates from 1999. Given the enormous progress which has been made in recent years it would be highly desirable for Ukraine to develop a new European integration strategy. This is part of the policy of the current Ukrainian government and the development of a new strategy would be a core element of a new Agency for European Integration planned by the Vice Prime Minister. However a final decision on this proposal still has to be taken.

b. the Progress Reports produced annually by the European Commission

The Progress Reports of the European Commission are generally considered as an important source of information on the needs of the partner country both in the context of narrow issues of European integration but also in more general development perspective. Although the reports undeniably have a certain political guideline, this in itself is a useful guide both for Ukraine and potential donors to areas of concern.

c. the EU Ukraine Action Plan under the European Neighbourhood Policy and the results of the joint assessment of the implementation of the Action Plan

The EU Ukraine Action Plan contains a list of changes which need to be made in policy, institutions and law in order for the process of European integration to progress. This listing is therefore a useful indication to donors. The results on the Action Plan are assessed jointly by the EU and Ukraine and give rise to a joint assessment which indicates where the weaknesses in Ukraine's adjustment to the EU persist.

d. the minutes of the meetings of the seven subcommittees of the Partnership and Cooperation agreement

The seven subcommittees cover the following areas:

- trade and investment
- economic and social affairs, finance and statistics
- enterprise policy, competition, regulatory cooperation
- energy, transport, information society, nuclear safety and environment
- customs and cross-border cooperation
- justice, freedom and security
- science and technology, research and development, education, culture and public health.

It is in these subcommittees that technical experts meet to deal with technical questions. The discussions in the subcommittees frequently represent early warning signs of particularly difficult problems in Ukraine's European integration.

e. the experience of the negotiations on the New Enhanced Agreement between the EU and Ukraine

The negotiation of a new enhanced agreement between the EU and Ukraine began in early 2007. As it is to be hoped that the new enhanced agreement will essentially be an Association Agreement which will lead on eventually to the full integration of Ukraine with the European Union, it is important that the agreement serves this purpose. This means that on the one hand Ukraine needs advice on the implications of negotiating positions in the different titles of the agreement. On the other hand, the major questions which arise in the course of the negotiations are an important indication of where specific assistance might be required.

f. the OECD Sigma report on public administration in Ukraine

Non-EU sources, such as the OECD sigma report on public administration issues in Ukraine are also useful sources of inspiration for foreign donors. Ukraine's institutions and the structure, quality and size of its public administration are key elements in its integration with the European Union.

g. the Country Strategy papers of the European Community, the European Bank for Reconstruction and Development and the World Bank.

Finally the country strategy papers of other donors are important elements in deciding where SIDA should concentrate its assistance and with which donors SIDA potentially could consider joint programming.

D. Sectoral concentration and comparative advantage

The EU Code of Conduct states that 'a donor's **comparative advantage** can be determined by, inter alia, any of the following criteria:

- its added value,
- where it relatively performs the best - without necessarily having an absolute advantage,
- where it performs the best - amongst all of its activities -, including in terms of results and impact on poverty eradication,
- where it has a lower cost compared to other donors.

A donor's added value can be determined by any combination of the following criteria:

- presence in the field,
- experience in the country, sector or context,
- possession of technical expertise and specialization of the donor,
- volume of aid, at global, country or sector level,
- trust and confidence of partner governments and other donors,
- capacity to enter into new or forward looking policies or sectors,
- capacity to react quickly and/or long term predictability,
- efficiency of working methodologies, procedures, and quality of human resources,
- in certain exceptional circumstances the sole fact to take action.

Ideally, the comparative advantage of a given donor should be:

- self assessed,
- endorsed by the partner government,
- recognized by other donors and non state actors.'

The objective of determining a donor countries comparative advantage is to enable the donor to select the three sectors in which it should concentrate its activity. Given the wide experience of SIDA in numerous projects in many sectors in Ukraine, determining how to select three sectors is a major problem. If this is combined with the desire eventually to engage in joint programming with the European Community and perhaps other bilateral donors, decision-making becomes even more complex.

It would be a useful exercise to use the criteria to assess the comparative advantage of SIDA. This would involve an evaluation exercise of past and present assistance to Ukraine. If this has not been done, it would certainly be worth doing. However determining relative advantage is a comparative exercise and therefore involves assessing other donor's strengths and weaknesses as well.

If SIDA wishes to go for longer term joint programming with the European Community, then it is highly likely that Swedish comparative advantage lies more in the characteristics of Swedish aid such as flexibility, size and long term predictability and trust rather than in particular sectoral experience, though certainly the interest of Swedish policy in areas like the environment and energy will be an important determinant.

In the short term, we feel that SIDA should approach both the choice of sectors and joint programming with the EC in a measured and progressive way, given that there are a large number of questions which need to be discussed and answered. This would mean a gradual concentration of activity on core areas, though always reserving the ability to jump in quickly with essential help where necessary.

It is therefore essential to explore with the European Commission the possibility of a limited amount of joint programming in the AAP-2009, using parallel financing, and to consider the longer term implications of joint programming and co-financing in the work going into the SIDA Country Strategy Paper on Ukraine.