



ACTION PROGRAMME FOR UKRAINE 2006

1. Identification

Budget heading	19 06 01
Total cost	€ 100 Million
Legal basis	TACIS Regulation 99/2000

2. Country update

The European Neighbourhood Policy (ENP)¹ constitutes a significant element in the creation of a new relationship between the EU and its neighbour countries. The EU-Ukraine Action Plan was agreed to in February 2005, following the Orange Revolution and the election of President Yushenko. The Action Plan is now under implementation, bringing Ukraine closer to the EU's political and economic principles and confirming Ukraine's choice for democracy and the rule of law. Hence, the Action Plan is also recognised by other donors as the political frame for designing support to Ukraine.

Substantial progress has been achieved by Ukraine in areas such as freedom of the media, freedom of expression, further development of civil society and the holding of the first truly free and fair parliamentary elections in Ukraine on 26 March 2006. Nevertheless, there are a number of outstanding issues which need attention: continuation of economic and judicial reforms, strengthening of the rule of law and fight against corruption, this closely connected to the need to improve the business and investors' climate.

The parliamentary elections in March 2006 constituted a test case for Ukraine continued commitment to democratic reform; the democratic conduct of these elections formed an essential condition for a further deepening of the EU-Ukraine relationship. The EU indicated that it was ready to begin early consultations in 2006 on an enhanced agreement between the EU and Ukraine, if these international standards were met and under the further condition that main political priorities of the Action Plan are also addressed.

The Ukrainian economy declined dramatically after independence but economic output began to recover in 2000, thanks both to a favourable external environment and to some improvements in government policy. However, lack of sustainability in Ukraine's growth exists and reveals the weak underlying economic and institutional structures. Problems include various inflationary pressures caused by loose macroeconomic policies, a poor business environment, significant regional disparities and incomplete structural adjustment.

¹ COM (2004) 373 final, issued on May 5th 2004

In 2005 the situation was worsened by a decrease of steel prices and higher energy costs. In addition cutbacks in public investment together with continuing uncertainty about policy interventions caused a substantial fall in investment demand.

On the positive side, the macroeconomic stability was helped by sound fiscal policies, as the large budget spending was offset by higher than expected budget revenues. Also the privatisation of large companies in the steel and banking sectors provided inflows for the budget. Inflation slowed down despite a pessimistic expectation of accelerating CPI growth but will remain a challenge in view of high money growth and the increase of gas prices.

For the near future, the growth prospects will vitally depend on the growth of gas prices. GDP real growth forecasts range from +6% to -14% for 2006. As the 2006 budget was built on unrealistic expectations of 7% GDP growth and unchanged gas prices, the budget deficit may go beyond the projected 2.5% GDP in 2006. The longer-term prospects of economic growth depend to a large extent on the government's success in managing structural adjustment away from large-scale heavy industry towards medium / smaller-scale manufacturing and services.

The investment in energy saving technologies must be seen as a top priority and radical improvements of the business environment are needed to encourage small businesses to develop within the formal rather than the shadow economy, raising the tax revenues. The creation of new jobs, for example in the services sector, is needed to balance the long-term decline of the heavy industry, particularly in the eastern regions.

In general, sustainable economic growth is linked to the success of the government in implementing the reforms, most of which are included in the Action Plan, increasing credibility in the eyes of both investors and consumers. Government's failure to accomplish reforms would keep Ukraine also vulnerable to external political and economic pressure threatening the prospects of growth sustainability. In this context, Ukraine's accession to the WTO will be an important step towards further enhancing trade and attracting investments.

Unfortunately, Ukraine is also challenged by a number of social/demographic obstacles in its effort to achieve sustainable development. The sharp decrease in the birth rate (aggravated by deterioration of birth and children mortality since the breakdown of the USSR) worsens the consequences of the current age pyramid and the financing of the pension system is a major challenge which threatens to hamper the entire public budget.

Ukraine also suffers from the high spreading rate of HIV – AIDS which threatens its socio-economic growth and threatens to undermine the entire health system.

Although poverty has notably been reduced since 1999², Ukraine has not yet managed to fully address the social consequences of the transition from the Soviet regime and some parts of the Ukrainian society remain still very vulnerable. If economic growth does not perform enough in 2006, poverty will stop decreasing or even rise again, notably within most vulnerable layers of the society.

² The percentage of population living under poverty threshold declined from 30% in 1999 to 19% in 2003 /WB Study, 2005 *Ukraine: Poverty and Inequality in a Growing Economy*/

Summary of the Action Programme

The Action Programme 2006 coincides with the political and specific priorities of the government. It seeks to provide target support to the implementation of the EU / Ukraine Action Plan, taking duly into account the readiness and ability of the new authorities to undertake reforms. It also foresees specific actions at regional and local level, directly targeting the population.

The Programme focuses on:

- core policies for the EU Internal Market such as Competition, Agriculture (with special focus on sanitary and phyto-sanitary issues), Customs, Financial Services and capital markets, and links it to the Lisbon agenda;
- preparing Ukraine to decentralised management of assistance and to enhanced regional development;
- strengthening civil empowerment (by means of community based approach and regional development).

Building on changes initiated in 2005, available TACIS resources will be focused on a few priority sectors identified jointly by the Ukrainian authorities and the Commission. Projects proposed in the NAP 2006 reflect the Ukrainian commitment in these sectors, hereunder the readiness to engage actively in reform process and further develop nation wide sector strategies. The gradual move towards Sector Wide Approach and decentralisation of our assistance is further processed in the Programme, implementing the Commission Commitments to the Council in applying the Paris Declaration on effectiveness of assistance, although Ukraine did not sign the Declaration³. As the introduction of the sector wide approach needs as a prerequisite the availability of developed national strategies in the sectors or sub-sectors included in a given Action Programme, and this not being always the case in Ukraine, the Action Programme 2006 still includes specific or preparatory projects together with sector or sub-sector fiches.

The Action Programme 2006 is thus concentrated on fewer projects than previous Action programmes, each project now covering a larger part of a sector and placing this Action Programme in a continuous process, bridging the way to the ENPI.

Coherence with EC cooperation policy

The EU General Affairs and External Relations Council of 21 February 2005 expressed support for the ambitious programme of political and economic reforms of the new Ukrainian Government. The Council underlined the EU's continued commitment to support Ukraine in the reform process.

NAP 2006 proposals match the overall objective to increase Ukraine's compatibility with EU *acquis*, not only at policy level but also as far as implementing modalities are concerned (i.e. twinning).

³ TACIS Deputy National Co-ordinator has committed to work in order to have Ukraine signing the Declaration.

With reference to commitments under the PCA, the Action Plan, the EU-Ukraine JHA Action Plan this Action Programme includes substantial actions related to border management. This work supplements the work undertaken by the EU Border Assistance Mission to Ukraine and Moldova (EUBAM) based on an agreement between Ukraine and Moldova, the Commission and the Council to improve the situation on the Moldovan-Ukrainian border, including the Transnistrian section. The EUBAM has already proven successful, and it is noteworthy that the action includes the help from a high number of the Member States who have provided staff.

Finally, the Programme pays great attention to support the further development of local governance and to promote equality of rights. This Programme foresees substantial amounts on these two essential components of democracy and good governance.

Identified projects:

Tacis Management Committees approved in 2001 and 2003 respectively the Country Strategy Paper 2002-2006 and the National Indicative Programme 2004 - 2006 for Ukraine. The Action Programme 2006 is developed in line with these strategic documents, and also takes into account the new political frame set up in the EU Ukraine Action Plan. The proposed activities are focused on three areas of co-operation: (1) support to institutional, legal and administrative reform, (2) support to the private sector and economic development and (3) support in addressing the social consequences of transition.

1. Support to institutional, legal and administrative reform

- Support to ENP Action Plan Implementation: this proposal seeks to strengthen the Ukrainian institutions in charge of implementing the ENP Action Plan in selected priority areas enabling them to meet the benchmarks set forth in the ENP Action Plan. It focuses on the improvement of market competition rules, the set-up of full-fledged agriculture and rural development policies, and preparing Ukraine to ex-ante decentralisation of external assistance management. It includes also a provision for funding twinning projects.

The competition component will contribute to the effective functioning of the young Ukrainian market economy⁴ based on EU-acknowledged principles of fair competition. It will draw on partial results achieved by earlier projects in that field and will focus on State Aids, enterprises with special and exclusive rights, public procurement. The agriculture component will mainly support Ukraine to design and implement quality approach (certification process) for sanitary and phyto-sanitary products and processes, driving towards accession to WTO and integration in the EU economy. Largely based on previous experience in Central European countries including new Member States, the decentralisation component aims at preparing the relevant Ukrainian authorities in a timely manner to the ex-ante decentralised management of EU external assistance.

⁴ The decision on granting Ukraine the market-economy status by the EU entered into force on 30/12/2005

- Improving Border Management: this proposal has two components⁵. One will support the Border Guards especially in their reform of human resources system. The second will help Ukraine to design and prepare necessary reforms in customs to set up a balanced approach, improving effectiveness of customs controls whilst raising efficiency (less control, more effects, less time and money lost in procedures and in waiting, for enterprises and citizens).
- Support to sustainable regional development: this project complements the 2004 and 2005 projects on sustainable regional development. It aims at helping Ukraine to draw lessons from the previous two actions and it offers a continued assistance in formulating a national policy on sustainable development and assistance to set up a regional fund to ensure investment in the area. It will also assist Ukraine to develop systems to monitor such a fund. The project addresses all sectors involved in local development and public utilities services. Previous actions focused on the small towns of Eastern regions of Ukraine, not covered by the current Neighbourhood Programmes or by the EBRD Programmes. This new project will extend the geographic scope of the actions already undertaken. It will also provide a comprehensive frame for the IFIs wanting to provide loans for regional or local projects.

2. Support to the private sector and assistance to economic development

- Innovative economy: this includes two main components. The first one deals with innovation, the second one with financial products market. The first component addresses Ukraine's potential in innovation by developing industrial synergies between both EU and Ukraine through building networks and clusters associating the three poles (education / research and development / industry), improving access for patenting and licensing in the EU, and by building the communications policy and infrastructure necessary to significantly improve exchanges between potential industrial or financing partners in the EU and Ukraine. The second component further develops the NAP 2005 project on Approximation of financial services.

3. Support in addressing social consequences of transition

- Women and Children Rights: Although Ukraine has ratified all relevant international conventions on women and children rights, gaps in the enforcement of basic rights of women and of children remain. This project aims at designing a SWAP for women and children rights, with a particular focus on the following areas: government capacity to implement its gender strategy and its action plan for children, gender culture and gender stereotypes, labour market issues including sexual harassment, domestic violence, biases in education, and enforcement of children rights, in particular via the creation of a juvenile justice system. These objectives match specific targets of the Action Plan.

⁵ These components may include support to the EU Border Assistance Mission to Ukraine and Moldova.

- Community-based approach to local development (CBA): this proposal draws extensively on a successful CBA experiment conducted by the UNDP in Crimea. Its main objective is to enhance the capacities of targeted communities throughout Ukraine at defining local development strategies, involving themselves into policy-making processes at all levels, through transfer of knowledge and project management best practices. Complementary to the future State's regional development policy, the project seeks to improve the social (e.g. the establishment of a national network of primary health care posts) and economic situation (improvement of public utilities for instance) in the targeted areas. The establishment of a recognised monitoring mechanism will guarantee project effectiveness and attractiveness for other potentially interested donors to pick up designed small-scale local project and contribute to the efforts and funding.

4. Others:

- The Action Programme 2006 also includes TEMPUS and a general technical assistance facility (GTAF) to be used to accompany the implementation of the EU external assistance activities.

3. Past EC assistance and lessons learnt

Overview of on-going and planned activities under the Tacis National Action Programmes:

Priority areas of intervention	Action Programme 2001	Action Programme 2002	Action Programme 2003	Action Programme 2004	Action programme 2005
Border management	Border Management Programme	Border Management Improvement	Border Management Migration Management Border Management, Infrastructure	Border surveillance along Transnistrian sector Reconstruction Jagodin border point	Justice, security and freedom: Border management and MOLI (anti money laundering)
Public administration reform	IBPP Regional Development	Effective State Budget Management IBPP: Key Public Institutions	UEPLAC Taxation Reform IBPP: Key Public Institutions	Support to NCU Support to PCA implementation EU / Ukraine ENP Action Plan support Statistics	Good governance: 1. Media / Electoral reform 2. Reform of civil service
Justice and home affairs			Strengthening the Capacity of Justice System	International co-operation in criminal matters Fight against and prevention of corruption	Transparency, independence and efficiency of the judicial system

Civil society	IBPP	Civic Education IBPP: Civil Society	Development of Media Skills Strengthening Civil Society IBPP: Civil Society	Capacity building for consumers NGOs IBPP civil society	
Sustainable local development				Sustainable local development / part 1	Sustainable Local Development - Works
Transport				Accession of and implementation by Ukraine for international convention and agreements on transport	Integration in TEN Transport
Trade and investment	Assistance with Agricultural Standards for WTO Accession				
Energy and Environment	Coal Mining Safety	Municipal Services Support	Development of Renewable Sources of Energy Municipal Reform: Waste Management in Donetsk	Ukraine integration to EU energy networks	Coal sector policy support programme
Banking and financial services		Mortgage Market Rules and Legislation Bank Restructuring		Support to insurance sector	Norms and standards Approximation of financial services sector (includes EBRD support)
SME development	Support to SMEs in the Rural Sector Competition Policy	Improvement of Logistics in Agricultural Sector	Improvement of Risk Management Capacity of SMEs in Agriculture SME Support Services in Priority Regions Reduction of Regulatory and Administrative Barriers for SMEs	Support programme for SMEs SME Finance support to regional banks Ukraine micro lending programme TAM	
Management training	Support to the Ukrainian Initiative MTP		MTP		
Social assistance reform	Development of Effective Accident Insurance	Strengthening Regional Social Services	Development of Integrated Social Services for Exposed Families and Children	Establishing a comprehensive rehabilitation system for young drug users Social contracting to improve social services delivery	Social Benefits Assessment

Health care	Development of Medical Insurance System	Support to the Development on a System of Medical Standards	Support for HIV/AIDS Prevention Among Youth	Reform of secondary health care HIV – AIDS Prevention among Uniformed Services of Ukraine	HIV – AIDS
Education	Support to reform and development of higher education (Tempus)	Support to reform and development of higher education (Tempus)	Support to reform and development of higher education (Tempus) Development of the System of Continuing Education at Workplace	Strengthening regional VET management Support to reform and development of higher education (Tempus)	

Lessons learnt

TACIS has proven successful in some sectors like institutional reforms, but has showed less convincing results in fields of action linked to the social consequences of transition and a balanced record in the development of a sustainable market economy. Previous assistance has to some degree been fragmented with a high number of projects dealing with support to too narrowly defined governmental tasks.

Meanwhile, as recent developments in Ukraine have shown, there is a growing awareness of democratic principles and functioning and a clear aspiration to come closer to the EU. Thereby, the political and economic framework has substantially changed, entailing new challenges and possibilities.

The Programme addresses the need for a more global, sector wide approach, answering the Ukrainian need for sector strategies, thereby developing ownership and better co-ordination with other donors, but also preparing the country for further EU approximation and for the ENPI.

4. Complementary actions and Donor Coordination

Other EC actions are implemented either through TACIS multi-country programmes (Regional, Nuclear Safety, Cross-Border Cooperation) or through thematic programmes. For Ukraine, this means the European Initiative for Democracy and Human Rights and the destruction of personnel landmines, the participation Ukrainian research entities in the Community R&D Framework Programmes (including INTAS), the cooperation between the EU researchers and the Ukrainian former weapons of mass destruction scientists and engineers in civilian activities in the context of the Science and Technology Centre in the Ukraine (STCU) as well as support in the field of migration and asylum under the AENEAS programme. Complementarities will be ensured between the proposed National Programme, these thematic programmes and with the Nuclear Safety programme.

On complementary actions from other donors, it has to be underlined that any proposal listed here has been assessed to avoid overlapping with other donors. Donor coordination

has also been strengthened in so far as other donors have recognised the priority given to the various policy lines provided by the EU – Ukraine Action plan.

Moreover, in most of the projects the Commission is setting up SWAPs and taking the lead in supporting Ukrainian Authorities to build its capacity. In doing so the Commission respects its commitment under the Paris Declaration.

Since a number of the proposed actions have an important component on developing civil society and promoting local democracy and respect for human rights, there have been intensive discussions with civil society representatives and all donors.

Last, but not least Member States have been kept informed through preparatory meetings and the co-ordination with MS will continue on a regular basis.

5. Indicative Cost, Financing, and Implementation Method

National Action Programme Ukraine 2006	Amount 2006
1. Support to institutional, legal and administrative reform	€ 50,5 mio
Support to ENP Action Plan Implementation	€ 25,5 mio
Improving Border Management in Ukraine	€ 10 mio
Support to sustainable regional development	€ 15 mio
2. Support to the private sector and assistance to economic development	€ 17 mio
Innovative economy	€ 17 mio
3. Support in addressing social consequences of transition	€ 26 mio
Women and Children Rights	€ 14 mio
Community-based approach to local development	€ 12 mio
GTAF	€ 1,5 mio
Tempus	€ 5 mio
TOTAL	€ 100 mio

The implementation method will principally be Centralised Management by the EC Delegation, Kyiv, with the exception of the support to reform and development of higher education (Tempus) which is managed by DG Education and Culture. However, for some actions, the Commission intends to introduce decentralised management by the Ukrainian authorities after a strict examination of the appropriateness.