Ukraine - Evaluation of EC Country Programme

Final Report

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<th>Description</th>
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<tbody>
<tr>
<td>ADE</td>
<td>The Agency for the Development of Enterprise</td>
</tr>
<tr>
<td>AMC</td>
<td>Antimonopoly Committee</td>
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<td>AP</td>
<td>Action Programme</td>
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<tr>
<td>APC</td>
<td>Action Plan for Change</td>
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<tr>
<td>BCC</td>
<td>Business Communication Centres</td>
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<td>BKHF</td>
<td>British Know How Fund</td>
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<tr>
<td>CEEC</td>
<td>Central and Eastern Europe Countries</td>
</tr>
<tr>
<td>CFB</td>
<td>Circulating Fluidised Bed</td>
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<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>CU</td>
<td>Co-ordination Unit</td>
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<tr>
<td>DG</td>
<td>Directorate General</td>
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<tr>
<td>EBAS</td>
<td>European Banking Advisory Service</td>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EES</td>
<td>European Expertise Service</td>
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<tr>
<td>EMDP</td>
<td>Electricity Market Development Project</td>
</tr>
<tr>
<td>EMTC</td>
<td>Energy Management Training Center</td>
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<tr>
<td>ENE</td>
<td>Energy &amp; environment</td>
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<tr>
<td>ERD</td>
<td>Enterprises Restructuring and Development</td>
</tr>
<tr>
<td>ESF</td>
<td>Environmental Support Facility</td>
</tr>
<tr>
<td>ESI</td>
<td>Electricity Supply Industry</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>F&amp;A</td>
<td>Food &amp; Agriculture</td>
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<tr>
<td>FFTF</td>
<td>Financial Framework Task Force,</td>
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<td>FSAL</td>
<td>Financial Sector Adjustment Loan</td>
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<td>FSU</td>
<td>Former Soviet Union</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GSP</td>
<td>Generalised System of Preferences</td>
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<tr>
<td>HRD</td>
<td>Human Resources Development</td>
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<tr>
<td>IAS</td>
<td>International Accounting Standards</td>
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<tr>
<td>ICPS</td>
<td>International Centre for Policy Studies</td>
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<tr>
<td>IFIs</td>
<td>International Financial Institutions</td>
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<tr>
<td>IMCA</td>
<td>Inter-Ministerial Committee for Agricultural reform</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IP</td>
<td>Indicative Programme</td>
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<td>JEP</td>
<td>Joint European Programme</td>
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<td>JOP</td>
<td>Joint Venture Programme</td>
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<td>JVP</td>
<td>Joint Venture Programme</td>
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<td>LEC</td>
<td>Local Electricity Companies</td>
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<td>LPAP</td>
<td>Policy and Legal Advice Programme,</td>
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<td>LSLR</td>
<td>Legal Services-Law Reform Programme,</td>
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<tr>
<td>MECU</td>
<td>Million ECU</td>
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<td>NBU</td>
<td>National Bank of Ukraine</td>
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<tr>
<td>NCC</td>
<td>National Co-ordination Center</td>
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<tr>
<td>NDC</td>
<td>National Dispatch Center</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>NIS</td>
<td>Newly Independent States</td>
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<tr>
<td>PCA</td>
<td>Partnership and Cooperation Agreement</td>
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<td>PIP</td>
<td>Productivity Initiative Programme</td>
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<tr>
<td>PMU</td>
<td>Programme Management Unit</td>
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<td>PPC</td>
<td>Post-Privatisation Centres</td>
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<tr>
<td>PPU</td>
<td>Project Preparation Unit</td>
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<tr>
<td>RCE</td>
<td>Regional Centres for Employment</td>
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<tr>
<td>SCES</td>
<td>State Committee for Energy Savings</td>
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<td>SCUDA</td>
<td>State Committee of Urban Development and Architecture</td>
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<tr>
<td>SME</td>
<td>Small and Medium Sized Enterprises</td>
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<tr>
<td>SMEDA</td>
<td>Small &amp; Medium Sized Enterprise Development Agency</td>
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<tr>
<td>SPF</td>
<td>State Property Fund of Ukraine</td>
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<tr>
<td>SSTA</td>
<td>Small Scale Technical Assistance (Facility)</td>
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<tr>
<td>T&amp;T</td>
<td>Transport &amp; Telecommunication</td>
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<tr>
<td>TA</td>
<td>Technical Assistance</td>
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<tr>
<td>TM</td>
<td>Task Manager</td>
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<tr>
<td>UAH</td>
<td>Hrvnya</td>
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<td>UEPLAC</td>
<td>Ukrainian-European Policy and Legal Advice Centre</td>
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<tr>
<td>UET</td>
<td>Ukrainian Economic Trends</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>WPI</td>
<td>Wholesale price index (WPI)</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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EXECUTIVE SUMMARY

1. OBJECTIVE OF THIS EVALUATION

This evaluation of the EC country programme in Ukraine has been done for the Phare Tacis Evaluation Unit with the purpose of providing inputs for the preparation of future Action Programmes in Ukraine and of drawing lessons to improve programming and implementation of EU assistance. It covered all the instruments for co-operation to Ukraine, in particular macro-financial assistance, national indicative and action programmes, interstate programmes and facilities. Analysis of nuclear safety programmes was not included.

2. COUNTRY BACKGROUND AND EU INTERVENTION

Since its independence Ukraine has been the object of particular attention and concern for the EU on the account of its size, its military importance, its relative proximity to Western Europe and as the site of the Chernobyl Nuclear Power Plant. The EU-Ukraine relationships have been governed by the Trade and Co-operation Agreement of 1989 between the European Communities and the USSR. A Partnership and Co-operation Agreement between the European Communities and their member states and Ukraine, has been signed in 1994 and is entering into force in 1998.

On the economic front Ukraine inherited a highly unfavourable situation at independence, in particular with regards to its external sector with the collapse of its traditional markets and a heavy dependence on imported energy. This combined with distorted costs and prices, and obsolete infrastructure and enterprise capital stock, led to dramatic output fall (real GDP is estimated to be in 1997 at 38% of its 1992 level), inflation (culminating to more than 10,000% in 1993), currency depreciation, severe contraction of living standards and unsustainable fiscal and current account deficits. These developments also reflect a lack of consistency and continuity in the reform policies. Under the Kravchuk presidency (1991-1994) the Government embarked in ambitious reforms but soon the trend was reverted in favour of public intervention in all spheres of the economy. After the election of President Kuchma in 1994 the Government introduced a reform programme including stabilisation and restructuring measures. So far it has succeeded in introducing a new and fairly stable currency and to curb inflation, but the sustainability of these results is compromised by the slow and somewhat erratic course of structural reforms, a result of the lack of political consensus on the direction and the magnitude of the reforms to undertake, and of tensions between the Parliament and the Government.

In this very difficult context EU has provided substantial material aid combining macro-financial assistance loans (285 MECU), humanitarian aid and technical assistance grants through the Tacis programme complemented by specific facilities, interstate programmes and special programmes to support nuclear safety. Technical assistance of all types has been the most important contribution with more than 430 MECU committed from 1991 to 1998. The EU and its member states have been the main donor to Ukraine providing overall support amounting to ECU 4.2 bln in the period 1991-97, of which ECU 1.8 bln in grants. Other important donors have been the IFIs (IMF, World Bank and EBRD) and USAID.

3. OVERALL ASSESSMENT: TO WHAT EXTENT HAVE THE OBJECTIVES OF EU ASSISTANCE BEEN ACHIEVED?

At country level, EU assistance to Ukraine, in particular the Tacis programme, is meant to assist the transition towards a market economy and to strengthen democracy. EU co-operation also attempted to support the political goals of the EU Ukrainian relationship, to ensure the visibility of EU in Ukraine and to support the interests of EU and EU enterprises. There is no doubt that none of the components of assistance to Ukraine since independence has been in contradiction with these wide objectives. The extent to which these goals have been achieved deserves a more nuanced answer. The national programme has attempted, essentially with technical assistance, to have an impact in three areas which are the essential ingredients for a successful transition: (i°) the adoption of adequate economic policies; (ii°) the implementation of sound structural reforms (institution building and regulatory framework including development of civil society); (iii°) the restructuring of the economy and the development of the private sector, recognising that this requires, in addition to technical assistance, investments and an increased participation in international trade.

On the first point, Tacis provided substantial macro-financial assistance to ease the stabilisation, and offered policy advice in response to specific
demands. These efforts did not result in a real improvement of Ukrainian policies, with the exception of a few sector policies (financial sector, energy savings). This lack of success can be explained by an absence of policy dialogue leading to agreed reform directions and support policies, and by an insufficient Ukrainian capacity, and at times willingness, to formulate and implement reform policies.

On the second point, Tacis has supported a number of reforms but its impact has been limited, sometimes severely, by three major factors: (a) the lack of policy dialogue again; (b) an insufficient analysis of situations and assessment of risks associated with interventions at a given stage of the transition process; and (c) insufficient critical mass, especially when assistance was insufficiently coordinated with that of other donors. Overall, Tacis has provided valuable support in terms of training, transfer of professional knowledge and institutional building. However, in many cases observed in this evaluation the benefits of implemented projects have been substantial for the individual partners (in particular training, study tours, Joint European Programmes) but did not lead to radical changes in the decision mechanisms, nor to an acceleration of the reform process, because they have not been relayed by the domestic policy measures which would generate an enabling environment.

On the third point, which mobilised important Tacis resources, the results are mixed. Tacis did excellent work, for instance in helping with the design and implementation of mass privatisation mechanisms. The performance of its intervention in restructuring and private sector development has, however, been limited by the insufficient progress of the macro-economic policies and structural reforms. The high professional quality of restructuring pilot actions and support to emerging private enterprises could not do much against an adverse regulatory and institutional background and a lack of economic recovery. The message of this evaluation is that Tacis alone cannot reach significant results in this area and that actions to enhance the context in which economic restructuring takes place, either through an improvement of the regulatory and institutional framework, or by bringing in other investors, are more effective than direct restructuring interventions.

A straightforward answer to the question-title of this paragraph is not simple. A major effort has been done. It has addressed real problem areas, and the assistance offered has generally been effective and of good quality. Impact in terms of fundamental changes remains nevertheless limited as evidenced by the slow progress in the reforms and the economic transition in Ukraine. The next paragraphs summarise the strengths and weaknesses of EU interventions and propose recommendations, according to the triple level analysis adopted in this evaluation: country programme, specific areas of intervention and the Tacis programming and delivery mechanisms.

4. **MAIN CONCLUSIONS AND RECOMMENDATIONS AT COUNTRY PROGRAMME LEVEL (PART I)**

The main instrument of intervention at country level is the annual Action Programme (AP) designed within the orientations of a medium term Indicative Programme (IP). It regroups TA offered by the EC to support the reforms to establish a market economy and a democratic society. According to the Tacis regulations, assistance is offered in response to Ukrainian demands screened and channelled through a Co-ordination Unit¹. Initially dominated by the demand-led principle, the national Action Programme has become increasingly a dialogue-driven exercise, with up to 50% of the 1998 AP resulting from the initiative of the EC. These commendable efforts were paralleled by an increased selectivity of intervention. While the first action programmes were a collection of unrelated small actions spread over a large variety of sectors, overtime a clear tendency developed to focus intervention in a limited number of concentration areas and to increase the size of individual projects to achieve a better critical mass.

The national Action Programmes regroup interventions each of which addresses real problems, but their composition and the allocation of resources across sectors and among instruments are not organised so as to contribute to prioritised reform objectives. Co-operation with other donors has been substantial at sector and instrument levels and Tacis has developed specific instruments, like the Bangkok facility, to organise the complementarity between its action and that of other donors. Macro-financial assistance has been provided to support IMF stabilisation programmes. In many areas joining efforts has greatly increased the relevance and impact of Tacis and other donor interventions, as evidenced by the achievements in sectors where all donors co-ordinated their efforts in the pursuit of a policy agreed with the Ukrainians. The national Action Programmes have not been designed in view of such co-ordination nor have their components been articulated on other EU instruments supporting agreed global policies. When macro-financial assistance was provided, the

¹ Which itself benefits from Tacis support.
composition of the programme has not been adapted specifically to assist the Ukrainians in meeting the objectives and conditionalities of the stabilisation policy. It must be said that other donors programmes suffer the same weakness; the differences in policy priorities and programming cycles of the donors make it very difficult to coordinate action at an aggregate level higher than the sector or specific area.

This has given the EU intervention a fragmented character which may explain its lack of global visibility. While beneficiaries of Tacis projects are generally satisfied, there is little consciousness in Ukraine of the overall EU support action and its magnitude, and perception remains limited at individual projects or sectors level.

In view of these conclusions, recommendations for immediate application and structural changes are proposed. In the short run focus should continue on a small group of selected areas but with a strengthened intervention logic and clearer risk assessment; complementarity should be increased between the mainframe programmes and other instruments, in particular with a more explicit incorporation of facilities in the Action Programme. Three more structural adaptations are proposed: (i°) to base the Action Programme on a policy dialogue with the Ukrainians involving the major donors; (ii°) to increase the time consistency of action, it is recommended to replace the existing system - a 5 year Indicative Programme (which is not a committed allocation) completed by annual Action Programmes (the budgetary commitments) - by a country allocation covering several years (e.g. five) and based on a policy dialogue to identify an intervention strategy supporting agreed country policies and complementary with other donor interventions (iii°) to make a distinction between institution building and transfer of know how independent from investment, and institution building associated or meant to induce investment, the latter justifying the development of specific cooperation instruments with other donors.

5. MAIN CONCLUSIONS AND RECOMMENDATIONS AT SECTOR PROGRAMMES LEVEL (PART II)

Eleven broad areas of intervention and four facilities have been scrutinised in this evaluation; it is not possible to summarise here the contents of these actions and only the very main conclusions and recommendations will be listed.

Privatisation/Restructuring

Main conclusions:

The intervention of EC into privatisation, a major component of the reform, was justified. Actions which addressed the development of procedures, regulatory framework and capacity building to manage mass privatisation were successful, although severe constraints were imposed by the political situation and the institutional and professional weaknesses of the State Property Fund. Direct intervention in the privatisation of specific enterprises generally achieved little results.

Through the establishment of Post Privatisation Centres the EU has made important contribution to the development of a capacity to assist enterprises in the process of restructuring but impact remains limited by inappropriate economic policies. Interventions in the form of studies to support sector restructuring are potentially useful but it is not clear whether the Ukrainian government will use them to implement restructuring strategies.

Main recommendations:

(i°) based on past experience, to give priority to developing the regulatory and legal framework for rapid and transparent privatisation of the remaining state enterprises, rather than trying to intervene in individual privatisation deals; if case by case privatisation is pursued lessons from former experiences should be integrated, especially insofar as the selection of enterprises and the association of the beneficiaries in the project design are concerned;

(ii°) more consistency and complementarity should be given to interventions to restructure enterprises, on the one hand, and, on the other hand, design of policies promoting their restructuring and creating the conditions for their viability; sector restructuring studies should be offered in the context of a policy dialogue only.

Support to Small and Medium Enterprises (SMEs)

Main conclusions:

A very effective and visible programme which has achieved significant results and provided valuable training and professional know how to the beneficiary. However, the context in which the EC support programme to SMEs has been developed proved a severely limiting factor. Consequences and implications of this have been insufficiently taken into account and there has not been a real
analysis of what should be done, alone or with other donors, to eliminate the major bottlenecks to the development of SMEs.

Main recommendations:

(i°) There is a need to assess, with the cooperation of other donors, the main issues and constraints facing emerging SMEs in order to develop actions to reduce them or to avoid developing mechanisms of support in areas or domains where they cannot lead to effective SME promotion. Specific attention should be given to the consequences of unfinished economic reform (for instance, the lack of strict financial discipline in the economy), the regulatory and legal constraints, and the geographical distribution of the effort.

(ii°) More comprehensive instruments should be developed offering a better articulation between assistance leading to financial decision and financing instruments themselves.

(iii°) Efforts to increase the financial sustainability of the Agency for Development of Enterprises (ADE) should continue but one should clearly decide whether the ADE must become a profitable consultancy business or remain an instrument of support and promotion of SMEs.

Support to the financial sector:

Main conclusions:

Tacis interventions in the financial sector may be positively assessed. Many factors contributed to this achievement: (i) the strong links which Tacis representative have been able to establish with key actors in the sector; (ii) the existence of a clear strategy designed under the leadership of the Bretton Woods institutions and accepted by all actors; (iii) a close co-operation between all donors in the implementation of this strategy; (iv) a high level of consistency between actions at the policy level and actions focused on enterprises restructuring and strengthening; (v) the utilisation in a complementing manner of the whole range of EU instruments from large projects to small facilities.

Main recommendations:

There is no specific recommendation to make in this area which may be considered as one success story of Tacis in Ukraine. Factors of this success should be taken into account in other sectors. The main ones are:

• close links of the Tacis representative with the strategic actors in the sector in Ukraine;

• agreement among all donors on a clear strategy and use of the leverage of the Bretton Woods institutions to obtain the commitment of the Ukrainian government;

• the existence of a commonly agreed strategy permitting a close co-operation between donors, each of them contributing with its own specific instruments and capabilities;

• this strategy also permitting to reach a high level of consistency between Tacis interventions at the central policy level and at the enterprises level;

• finally, a creative utilisation of the whole range of EC instruments, large projects allowing for relatively massive actions but whose implementation requires some delays being complemented by facilities whose volume is much more limited but which may be implemented at short notice or to meet very specific needs.

Agriculture:

Main conclusions:

Tacis has supported the agriculture sector with technical assistance to agricultural production, restructuring of agricultural enterprises, institution building and policy advice.

As far as Tacis objective is to support the transition process technical assistance to production projects, although this is generally successful and in strong demand from potential beneficiaries, is irrelevant.

The disappointing results of the agricultural enterprise restructuring projects clearly illustrate that a reform process cannot be implemented at the enterprises level in the absence of a policy defining objectives and guidelines and implementing the requested reform-friendly institutional environment.

Relying on reform-minded individuals, collectives and local administrations, Tacis institution building projects dealt with the development of structures to support agricultural enterprises restructuring or offering support for trade and marketing of agricultural products in view of stimulating the reform process in the agro-food sector. But as long as such a process has not started because of a blockade at the policy level, these structures are facing the same difficulties as Tacis enterprise restructuring projects: the absence of any precise guideline as regards the reform to support and an adverse institutional environment. Therefore their impact is very limited.

The large Tacis project in agricultural policy advice fundamentally relied on the assumption that
conditions were mature for the formulation of a reform policy of that sector provided a policy analysis capacity is supplied to the Ukrainian government. This assumption proved to be incorrect

Main recommendations:

(i°) Technical assistance to production: the withdrawal of Tacis from this area since 1993 is justified and should not be reconsidered.

(ii°) As long as the Ukrainian government has not designed a strategy for the restructuring of enterprises in the agro-food sector and implemented the policy framework requested by its implementation, projects in this area are due to be poorly effective and to fail to produce any significant impact. Tacis should therefore not introduce new projects of this type.

(iii°) The impact of structures supportive of the restructuring process at the enterprise level will remain very limited as long as no clear policy is being designed and implemented in this area. Tacis should accordingly not embark in the establishment of such structures unless it is able to secure that they will benefit of some support for a long period.

(iv°) A support to the establishment of trade organisations and professional unions is better justified since such organisations may favour the grow of reform seeds, promote a more sensible approach of agricultural problems by policy makers and, at the best, contribute to remove the political blockade of the reform process in the agro-food sector.

(v°) The design of a reform policy for the agro-food sector is a pre-condition to any significant progress in this sector. However, experience clearly demonstrates that, as long as there is no willingness or political capability on the government’s side to take this step, technical assistance to policy makers is useless. If it is assumed that, because things are slowly moving at the grassroots level and because of the emergence of reform-minded organisations and unions, a way out of this blockade will eventually take place, Tacis could contribute to a sensible and transparent debate through an assistance to the development of an Ukrainian capacity to analyse agricultural policy issues.

Non Nuclear Energy/Environment

In this sector the most important assistance packages of the EC have been directed to the reform of the energy supply industry (ESI), the development of energy saving programmes, and technology transfer and industrial co-operation.

Main conclusions and recommendations regarding the ESI:

As far as the ESI restructuring is concerned Tacis supported a reform adopted by the Ukrainian Government and recommended by the World Bank. The World Bank is the leader of the reform and Tacis is one of the main contributors. This intervention is articulated within a complex network of projects. So far most expected outputs have been delivered. Ownership of the reform remains insufficient and impact is severely limited by an adverse economic environment; however most Tacis ESI projects were relevant independently of the outcome of the reform because they largely addressed basic issues which deserved support under any circumstances: improvement of accounting practices, methodology to assess investment needs, etc. Impact of the overall reform is real but could have been achieved at a lower cost; assistance will still be needed for many years.

Our main recommendation are (i°) to undertake an independent review of the lengthy reform, of the results achieved and of the future needs of Ukraine for technical assistance. The conclusions of such a review should greatly improve the efficiency of the projects Tacis intends to finance in the future; (ii°) to review the remit of the co-ordinator in order to clarify its responsibility.

Main conclusions and recommendations regarding energy savings:

Ukraine is one of the most energy inefficient country in the world and priority given to this sector since 1992 is justified; moreover, Tacis is the major operator in this area. Institution building to create the capacity to formulate and implement energy saving policies has led to the establishment of a State Committee for Energy Savings. Energy saving consciousness has been risen but as long as financial discipline is not embedded in the economy, and therefore prices do not play their role, an efficient energy policy remains a far away goal. The main impacts have been achieved through the establishment of an Energy Management Training Centre.

Our main recommendation are (i°) to review the remit of the State Committee for Energy Savings and to assess its absorption capacity before launching new projects with this beneficiary; (ii°) to set up an archive system of all the energy saving reports of contractors to permit comparative assessment of many energy saving projects of similar nature and ToRs.
Main conclusions and recommendations regarding technical co-operation:

The intervention of the EC has been modest but very successful in this area which is a priority of Ukraine, whose industrial capacities needs improvements. It is also beneficial for European enterprises. Projects have been technically successful and benefited from immediate ownership; a joint venture has resulted. It is therefore recommended to give some emphasis to such technically oriented projects, provided progress of the economic reform permits operations in a normal market context.

Transport and Telecommunications

Main conclusions:

Although, for many years, this has not been a priority area of intervention for Tacis, substantial support has been provided, among other with a National Road Network Study. This was initially intended to be financed by two successive budgets, but it has been interrupted after phase I. The partner organisation is presently waiting for phase II and may be overwhelmed as one other Tacis project has been launched at the end of 1997 and two more are now in the pipeline.

Main recommendations:

(i°) To improve the consistency between the various forms of EC support to the sector: mainframe projects in the action programmes, EES projects and Bangkok facility interventions. To articulate these instruments on a sector strategy agreed upon with the Ukrainians and the other concerned donors (World Bank and EBRD in particular);
(ii°) To avoid financing feasibility studies and road rehabilitation projects without organising appropriate relays to take over the logical continuation in the form of investment.

Policy advice

Main conclusions:

Policy advice had been and remains a high profile activity of Tacis in Ukraine; it is essential for the visibility and the credibility of the EC action, and it responds to real problems. It is, however, regrettable that it is not more used by the EC itself in the context of its programming activities. The professional quality was generally good. The major problems are: the lack of policy view of the EC; the focus on delivery rather than on institution building; the lack of ownership by the recipients and an insufficient sustainability of the large projects in this area.

Main general recommendations:

(i°) The evolution of policy advice should follow that of the programming approach of the EC. From purely demand driven it should be increasingly “dialogue driven” and should be used to define better intervention strategy at national and sector programme levels.
(ii°) Policy advice should be complemented with capacity building, recognising that the two are complementary but not necessarily achieved with the same tools, nor with the same partners.

Employment, training and retraining programmes

Main conclusions:

The employment services project offers an interesting example of ill designed intervention which was rather successful in terms of impact because the contractor could demonstrate the acuteness of the problem and the need for an answer; and he found a partner organisation who accepted to be convinced. The poor design, however, and the lack of taking into consideration the comprehensive dimension of the employment problem reduced effectiveness and the impact. Insufficient co-ordination across Tacis projects and with other donors is another weakness of this project.

The military re-training project compounds the defects of the civilian one. The questionable intervention strategy based on the construction of an ambitious and cumbersome institution, of doubtful viability, has resulted in minimal impact.

Main recommendations:

(i°) To rationalise the approach by organising a better complementarity and avoiding duplication among different Tacis projects including an employment training or redeployment component.
(ii°) If Tacis is to further invest in this type of action it should conduct studies, maybe under an EES, to gain a deeper understanding of the functioning of the labour market in Ukraine and the main obstacles to re-employment which are not directly linked with economic activity, such as qualification mismatch, but also regulatory and institutional constraints, existence of disincentives, etc. The costs of addressing them should be assessed. The literature on the relative advantages of support to job search alone, and excluding retraining should be taken into account.


**Education/Tempus**

Main conclusions:

Since 1993 Tacis has devoted relatively large resources (equivalent to roughly 10-12% of the Action Programmes) to higher education through TEMPUS. This has permitted a visible presence of EC assistance and to reach a segment of the population (higher education workers) which is potentially important in the transformation of the society. Apart from that, no real comprehensive reform of the education sector has been undertaken but the blame cannot be put on Tacis. Professional education could have been an area of intervention of Tacis offering opportunities to address more actively the restructuring needs of the economy.

Main recommendations:

(i°) Tacis should not intervene more heavily in the sector without a strategic approach which can only result from global consistent donor effort and the negotiation of a comprehensive reform strategy endorsed by the Government.

(ii°) Limited actions focused on civism and civic education are important and consistent with the goals of Tacis; continuation of explorations of possibilities with other donors in this area is commendable.

(iii°) More attention should be given to professional education, possibly through a redirection of Tempus priorities.

**Public Administration Reform**

Main conclusions:

A difficult sector because of the high political sensitivity, public administration reform has been addressed first in 1992 with an ambitious programme tackling all the dimensions of the problem but with a partner who had only a mandate to operate in training. This revealed that technical intervention is possible but not very useful without full fledged reform. Lessons have been learned and more recent Tacis involvement in public administration reform is conducted in full co-ordination with other donors, with a clear division of responsibility and a leading role for Tacis on specific aspects. A large World Bank loan offers leverage to obtain a commitment of the Government.

Main recommendations

(i°) The importance of the issues at stake and the fact that this is an indispensable reform for any Government in Ukraine justify the continued involvement of Tacis in this sector.

(ii°) Past experience has shown that in this delicate area an intervention limited to the technical aspects of the reform cannot deliver properly its output and is unlikely to have any significant impact. Therefore it is recommended to continue to work in the context of a comprehensive policy dialogue led by the major donor who can have a leverage given the size of its intervention and the possibility to attach conditionality to it. In this context the current EU strategy is commendable: it consists in focusing on training of the civil service and keeping a margin of manoeuvre to provide specific technical assistance to assist other donors in points which may be critical for the reform.

(iii°) Particular attention should be paid to the selection of the partner organisation. Its capacity to take ownership of the reform and to have the necessary leadership is essential and should be the object of negotiated agreements.

**Facilities**

Facilities cover a variety of instruments with different characteristics. Unlike mainframe Tacis programmes they are managed by a horizontal service (unit C6) as an instrument for the whole NIS and Mongolia. They are implemented through a specialised service, a management unit, a contracted TA or the Delegation. Their resources are included in the general Tacis budget either on an interstate basis (Bangkok facility e.g.) or as the result of contributions earmarked in each national Action Programme for specific facilities. For analytical purpose they will be grouped in three categories.

(i°) Facilities which are in fact programmes pursuing specific objectives but managed outside the national programme on a cross-country basis. To this group would belong Tempus (analysed in part II, section 8.3), Lien, the City Twinning facility, the former Democracy facility, now a specific programme.

(ii°) Small programmes. This is a variety of specialised instruments available, mostly to complement or support larger mainframe programmes with specialised inputs, to conduct specific interventions which would not justify a mainframe programme but deserve to be undertaken, to permit quick intervention on limited questions, to give the possibility of a limited action to prepare or complement a larger project, etc. Under this heterogeneous group we would currently find the Policy Advice Programme, the European Senior Service Network, Financial Support Framework, the Productivity Initiative Programme, the group
of facilities supporting international standards and commitments (customs, statistics, intellectual property, etc.), Bistro, the Small Scale Technical Assistance (SSTA), etc. This group has changed over time and the tendency over the last years is to consolidate and to rationalise it.

The main conclusions regarding this category are:

- In general these facilities permit a substantial reduction of the programming cycle and rapid mobilisation of very specific resources. They have been very effective in providing at a reasonable cost Western European professional expertise and advice.
- The reasons for using a facility rather than a mainframe programme are not clear and may result from "tactical" considerations as illustrated by the transfer of the UET from the EES facility to the UEPLAC programme or the decisions to conduct a particular study under an EES project or the UEPLAC programme.
- Policy Advice facilities (as mainframe programmes) failed to meet the needs for limited but very focused expertise when this expertise was not anticipated and specified in the terms of reference.
- In Ukraine there has been an interference of the Delegation and a tendency to use the facilities outside their foreseen range to support specific goals in the national context.
- These facilities increase flexibility but complicate the chain of command, since they are managed by a different TM than the one in charge of the main project they support.

We recommend to pursue the trend of rationalisation and mergers of these small programmes and, in the case of Ukraine, to integrate them more fully in the Action Programme (see also recommendations at country level).

(iii°) Facilities meant to develop the potential of Tacis as a catalyst of investment or capital funding: the Bangkok facility and the Joint Venture Programme (called sometimes JOP, sometimes JVP). These facilities are particularly important since they are a potential vehicle to organise the bridge between TA and its relay with the provision of investment and finance resources.

The Bangkok facility, which funds TA to identify and implement EBRD investments, proved a good catalyst for investment with a very short project cycle and an effective system of ex-post control. Its main drawback is that, under the present organisation, Tacis has little control on the selection of projects and therefore cannot use the facility to strengthen its own intervention strategy. The main recommendation is that, when it will be justified to increase the share of the Action Programme directed towards investments (see also Part I, section 4.2, 3°), this type of instrument should be privileged, rather than intervening directly with co-financing. The procedures should then be reviewed to obtain a firmer commitment of EBRD to consider Tacis supported projects for funding.

The JVP facility was designed to facilitate the creation and development of joint ventures between EU and CEECs enterprises with information, TA and (marginally) finance. It has only been recently introduced in Ukraine and not yet used. However, it is a potentially important vehicle to prolong and complement technical assistance, in particular in the SME area, with other means and to channel access to financial resources. For this reason this evaluation describes the main weaknesses of the facility: it is not perceived as attractive by the Tacis country because initiative comes from EU enterprises; the equity component is too small and the procedures too complicated; the financial institutions selected are not sufficiently specialised in investment and development finance; the training component is not enough managed by the EU investing firm; the focus on joint ventures is too narrow. The first recommendation is that it is maintained in its present form as long as no substitute is proposed. The second recommendation is to pursue the efforts presently undertaken by the responsible unit in Tacis to develop progressively a new market friendly assistance mechanism which would provide a better distinction between the financing instruments and the assistance leading to a financial decision.

6. MAIN CONCLUSIONS AND RECOMMENDATIONS AT HORIZONTAL LEVEL (PART III)

The main transversal conclusions of this evaluation are regrouped along the phases of the project cycles.

Main conclusions relating to programming:

- Although Tacis in Ukraine has departed from a purely demand led approach, it has not built up the capacity to analyse situation, to formulate policies which address the priorities of the transition process, nor to assess risks associated with its intervention. It adopts a reactive rather than a proactive approach. In Ukraine Tacis has supported on-going government policies in several areas without assessing them against alternatives. In sectors where the intervention strategy has been agreed upon with other donors, in general the latter have formulated the
overall policy with relatively little input or critical view from Tacis;
• Many actors are involved in the identification of Tacis projects, design of Indicative and Action Programmes, preparation, management and monitoring of projects: the Co-ordination Unit, the DG1A operational services in Brussels, the Monitoring Unit, the Technical Assistance section of the EC Delegation in Kyiv. The division of responsibilities, in particular between DG1A and the TA section of the Delegation, has been increasingly in favour of the latter, partly as a result of the personal features and dynamism of a few individuals. While this has generally been positive and well accepted this development is a source of potential conflicts of competence between task managers in Brussels and project managers in Kyiv and it puts projects at risks when people move to other positions;
• Tacis is better organised to identify good projects than to select projects and instruments supporting policies which would effectively induce a transformation towards a market economy and promote a democratic society. This does not necessarily reduce the appropriateness of particular projects, but it negatively affects the relevance and consistency of the country programme;
• Co-ordination mechanisms and sharing of information with other donors has been well developed in Ukraine. Examples of good co-ordination with distribution of efforts according to resources available and specific interests but in pursuit of commonly agreed objectives has taken place in the financial sector, the reform of the energy supply industry and the reform of the public administration. The participation of IFIs with high leverage increases the chance to obtain the Government commitment to a consistent policy package;
• A number of difficulties and weaknesses have been noted along the analysis of the programming process: it is excessively difficult to stop a project or to reallocate resources across projects or instruments; the co-ordination of complex interventions supporting a major reform with a network of projects is not adequately addressed in the Action Programme; the absence of systematic archives and documentation is constraining the “memory” of the system and deprives it of a tool to improve programming and dissemination;

Main conclusions regarding the preparation of intervention:
• Weaknesses in the terms of reference are in many cases the main origin for difficulties observed with Tacis projects. The main one which have been observed are: outdated terms of reference; insufficient analysis of situation and project environment; adoption of standard models with insufficient adjustment to local situation; interventions of other donors ignored or vaguely identified; connection with former Tacis projects not precisely identified; weak intervention logic; insufficient ownership of the ToRs by the partner organisation/beneficiary;
• The project design tends to bias towards the management of resources against the pursuit of objectives;
• The frequent underestimation of the delay and volume of inputs needed to deliver the output and achieve the objectives of a project is distorting the working out process of Action Programmes and creates uncertainty for the contractors and beneficiaries;
• The absence of phasing out strategy is a widespread characteristic of Tacis projects and compounds with the previous conclusion to reduce the margin of manoeuvre for a redeployment of the programmes;
• Other important findings concern the problems resulting from the lack of involvement of the beneficiary when it is not the partner organisation, the selection of partner organisation, the consortia, the use of local experts, etc.

Main conclusions regarding implementation and management of intervention:
• The time constraint is too restrictive for most projects;
• The external monitoring system of Tacis is a positive achievement which has permitted to redress many project slippage; however, it can be improved in a number of ways;
• In general the professional quality of intervention is good. However, this aspect is not monitored and low quality is not easily sanctioned.

These conclusions or findings lead to three categories of recommendations

(i) The EC should organise a policy dialogue and base its action programmes on it; it should adapt its organisation and the professional qualification of its staff to improve its capacity to conduct and participate in such dialogue. The PCA could be used to create the framework and the incentive for such redirection.
(ii°) The distribution of responsibilities between the operational services in Brussels, the Delegation and the CU in Kyiv should be reviewed. The two guiding principles should be:

- Keep in Brussels (geographical units) the responsibility to participate in the policy dialogue and to define intervention strategy. Locate in Kyiv, at the Delegation, the responsibility to identify projects, prepare ToRs, liaise and co-ordinate with other donors, liaise with monitoring, liaise with partner organisations and inform geographical units of progress of reform, evolution of programmes and projects. The ultimate responsibility for project preparation and supervision should be with the Delegation, where the TMs should be located. The ultimate responsibility for programming and negotiating assistance with the Ukrainians and the other donors should lie with the geographical units. With such an organisation operating under a policy dialogue a Tacis co-ordination unit ceases to be justified;

- Maintain close links between programming and execution;

(iii°) Diverse recommendations to improve project preparation, implementation, management and monitoring. The creation of a project preparation unit in the Delegation is proposed to improve the quality of the terms of reference. The systematic inclusion of objectively verifiable indicators and a phasing out strategy is recommended. Measures to further improve the present monitoring system are suggested, in particular to formalise the inclusion of the monitors at some critical stages in the project life. Finally, it is recommended to continue efforts undertaken in the area of evaluation, by using interim evaluation within the proposed revolving action programmes, by organising systematic feed-backs of the evaluation results to the operational services of Tacis, and by introducing a rating of the contractors.
INTRODUCTION

This evaluation of the EU assistance programme to Ukraine since its inception in 1991 has been conducted in three phases, between September 1997 and June 1998 by a team involving five experts from EU countries and one Ukrainian expert. The first phase, principally in Brussels, permitted to organise a synthetic and workable information on the size, the components, the main instruments and the procedures of the overall co-operation programme and its background, and to select a sample of projects and instruments to submit to an in depth analysis conducted under phase II, principally in Ukraine this time. Each phase produced a draft report forming the basis for the third phase devoted to the overall synthesis and the formulation of conclusions and recommendations. This final report is organised as a stand alone document presenting the results of the three phases, though without entering into the same detail as the interim reports.

The main objective of this evaluation is to review past and on-going EU interventions in Ukraine in order to draw lessons to improve the design and management of the future assistance to this country and, more generally, to improve the process, methodologies, and procedures which together form the institutional capacity to design and deliver a well performing country assistance programmes funded with public resources.

The evaluation methodology consisted in the qualitative analysis of a series of criteria to assess the programme relevance, effectiveness, impact and sustainability. These analysis were based on a mixture of desk studies and interviews with representatives of all categories of actors (EC staff in Brussels and Ukraine, Co-ordination Unit staff, partners and beneficiaries, contractors and monitors) involved at the different stages of an intervention.

The EC co-operation effort to Ukraine has been analysed at three levels reflected in the organisation of this synthesis report:

- the country level (part I): to assess the overall relevance and consistency of the global assistance package, all instruments and sectors included, offered to Ukraine. To conduct this analysis a framework has been tentatively designed to assess the potential contribution of external assistance to the transition process, and criteria against which to measure the performance of the country programme are proposed; then conclusions and recommendations are derived;
- the level of the main areas of intervention and specific instruments (part II): to assess relevance, effectiveness, impact and sustainability of sector programmes and actions undertaken in selected areas. This analysis has been investigated for a selection of projects and facilities which have been scrutinised through an evaluation grid adapted from the logical framework; these case studies involved an in-depth exploitation of the written documentation available for an intervention, (preparatory documents, terms of reference, monitoring reports, contractor’s reports, correspondence with the task managers and the sector expert of the Delegation) and interviews with a maximum of actors;

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2 The terms of reference are attached as annex 4.
3 An interim report has been produced at the end of phase I:
   A second report has been issued at the outcome of phase II:
4 This grid is presented in annex 1. It also defines the terms relevance, appropriateness, effectiveness, efficiency, impact and sustainability used throughout this study.
• the horizontal level (part III): to assess the effectiveness of the programming and delivery mechanisms of Tacis assistance to Ukraine. This part of the study highlights important issues relating to the various stages of the intervention cycle. These horizontal or cross-cutting issues are the main findings coming out of the analysis at country and sector levels.

In order to separate the accumulation of information and the judgement of the evaluators a clear distinction is made, within each part and within the sections relating to specific areas, between the presentation of situation and facts about programmes and projects, the evaluation, and the proposed recommendations.

This process faced a number of limitations regarding the availability of documentation and resources persons. Apart from the monitoring system Tacis has no systematic archives and no formal procedures to transmit files between successive holders of a specific position. The information of the monitoring system is not exhaustive, nor always complete, and it does not cover old projects which were conducted prior to its existence. The access to the resource persons is made difficult by the high turnover of EC staff, and an even higher turnover of staff in many partner organisations. At the end of the project implementation contractors’ teams are generally disbanded and the possibility to interview one of them is largely a question of luck. Finally, it must be kept in mind that the evaluation team did not have access to the contracts and, therefore, could not assess the effectiveness and efficiency in using financial resources within projects.

Although every attempt has been made to maximise the coverage of the study it was impossible to analyse systematically all components of such a vast assistance. This evaluation is certainly not exhaustive, but it is based on a selection which should give a fairly representative account of EC actions undertaken in Ukraine.

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5 In particular, it is frequent that the final report of the contractor is not transmitted to the monitors.
Part I: Analysis at Country Level

1. Ukraine, the EU and Other Donors

1.1 Background of EU-Ukraine Relationships

From the moment of the dissolution of the Soviet Union in 1991 the European Union has sought to develop close relations with all the newly independent states (NIS) and to promote their rapid transition to democracy and a market economy. Ukraine has been the object of particular attention and concern for the EU on account of its size (with a population of 52 million it is the second largest of the NIS), its military importance, its relative proximity to Western Europe and as the site of the Chernobyl Nuclear Power Plant (site of the world’s worst nuclear accident in 1986). It has also been encouraged to seek greater integration with Europe, with the result that, following progressive moves to a greater level of democracy, Ukraine was admitted to the Council of Europe in 1995.

The EU has been particularly attentive to assist Ukraine in redeploying its trade from former COMECOM and NIS countries and to develop trading relations with Ukraine. These have been complicated by the fact that several categories of Ukraine’s exports are subject to distorted pricing resulting from implicit or actual state subsidies. Thus Ukraine is entitled as a developing country to benefit from preferential access to EU and other developed country markets under the Generalised System of Preferences (GSP), but many of its exports to the EU have been subjected to "reconstitution of real value" under EU anti-dumping rules. At the same time the EU has sought to attach conditionality to its macro-financial assistance in order to sustain or increase the openness of Ukrainian markets to EU exports.

The EU action towards Ukraine has many dimensions: political, economic, trade. On the political side the primary target is to increase European security, in particular to support an independent and sovereign Ukraine developing stable and good relationships with its neighbours, dismantling its nuclear weapons and accessing the Non Proliferation Treaty. On the economic side the objective is to support economic stabilisation and reform - based on the agreement with IMF and support from IFI’s - towards market economy viewed as a prerequisite for economic development and enhancement of political and social stability. The objective of the trade dimension is to support the integration of Ukraine in the world economic order. Finally, supporting democratic development is high on the list of EU objectives both for its own sake and insofar as it results from and supports economic reforms.

Formally EU-Ukraine relationships have been conducted under the 1989 Trade and Co-operation Agreement between the European Communities and the USSR. A Partnership and Co-operation Agreement between the European Communities and their member states and Ukraine has been signed in 1994 and is meant to enter into force in 1998. On the EU side the objectives to assign to the relationship with Ukraine have been set up in the “Common Position defined by the Council on the Objectives and Priorities of the European Union towards Ukraine” of 28/11/1994 and in its preparatory documents.

The 1994 PCA is a negotiated agreement the main objectives of which are to provide a framework for the political dialogue between Ukraine and the EU, to promote trade and investment between the parties, to provide a basis for co-operation in a number of sectors, and to support the consolidation of democracy and the development of a market economy in Ukraine.
1.2 **ECONOMIC DEVELOPMENTS**

Because of the profound economic crisis which was such a central factor in the final collapse of the Soviet Union in 1991 Ukraine inherited a highly unfavourable situation at independence which it was in no way prepared to cope with. For although endowed with a broader economic and resource base than most of the other NIS, its heavy dependence on imported energy, increasingly paid for at world prices, combined with the loss of many markets in the former Soviet Union, left it in a position of serious external imbalance. At the same time much of its economic infrastructure and the capital stock of the enterprise sector were either obsolete or run down through lack of investment. Combined with the distortion of costs and prices and other inefficiencies inherited from the old central planning system, this meant that the country was ill-equipped to compete in Western market economies or to prevent a substantial fall in output and living standards.

Against such a background it is not much of a surprise that the economy was affected in the early years of its transition process by sharp falls in output, falling government revenues leading to a large budget deficit, a substantial external deficit and a chronic cycle of inflation and currency depreciation. What is however worrying is that economic activity remains on a relatively steep downwards trend six years after the transition process was started. According to official figures GDP dropped by 10 per cent in 1996 to 38 per cent in real terms of its 1992 level. Recent estimation point to a further decline of about 5% in 1997.

Table I-1.1 summarises the main macro-economic indicators for Ukraine since 1992. They reveal an overall decline of activity and a deterioration of the macro-economic equilibria until 1994, followed by elements of stabilisation but no or little real adjustment towards a situation allowing sustainable growth afterwards.

Industrial and agricultural production have been continuously declining over the whole period and the only progress observed after 1994 is the slow down of the decline in output. With activity, incomes have been contracted eroding the taxation base and generating social hardship for specific categories of the population who were protected, although through highly inefficient mechanisms, under the former regime. The social costs were partly alleviated by the slow pace of reform of the enterprise sector as evidenced by the different rates of decline of output and employment, implying a fall in productivity.

This picture should be taken with caution as it does not take into account the informal economy. A very high level of taxation, an unstable legal and regulatory framework, bureaucratic interventions, the absence of any significant advantage at being formally registered and paying taxes induce a growing number of existing enterprises to divert part of their production into the grey zone of the economy whereas most newly created small enterprises remain informal. Official as well as unofficial sources evaluate the shadow economy anywhere from 40 per cent to 80 per cent of official GDP.

The trade balance has deteriorated sharply between 1992 and 1996 with deficit of $4.3 bln in 1996 corresponding to nearly 8% of GDP. Imports of energy from Russia and former soviet republics is the major explanatory factor. Trade with the rest of the world is roughly balanced but major changes in the directions of trade have occurred. Trade with the EU has intensified and imports from the EU have trebled since 1992 leading to a trade deficit of ECU 1.2 bln for Ukraine.

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6 A more detailed overview of the macro-economic and sector framework is provided in the ADE Interim Report of Phase 1, op. cit.
7 GDP is estimated in accordance with Western concepts from 1992.
8 Trade statistics are very reliable and at periods show contradictions with balance of payments data. The large informal economy probably results in an under-estimation of the trade deficit.
The external financing requirements have been covered by the rescheduling in 1995 of more than $3 bln of debt and arrears towards suppliers from the FSU, and by IMF and World Bank contributions in 1996. The same pattern was replicated in 1997, but to a lesser degree, because Ukraine did not meet the IMF conditions for a three years Extended Fund Facility. In 1997 the disbursement by the EU of the second tranche of a MECU 200 loan provided some financing resources. Furthermore, Ukraine issued Treasury Bonds on the international financial market. Foreign direct investments, although growing, have cumulated to a modest $1.3 bln over 1989-96, i.e. $25 per capita, one of the lowest contribution among all CEECs.

**Table I-1.1: Ukraine main macro-economic indicators**

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</thead>
<tbody>
<tr>
<td>Real GDP: Billion HRN at 1990 prices</td>
<td>137.4</td>
<td>100.5</td>
<td>60.3</td>
<td>55.9</td>
<td>52.5</td>
<td>49.9</td>
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<tr>
<td>Annual growth rate in %</td>
<td>-8.3</td>
<td>-35.6</td>
<td>-8.8</td>
<td>-5.7</td>
<td>-5.0</td>
<td></td>
</tr>
<tr>
<td>GDP per capita in $</td>
<td>404</td>
<td>269</td>
<td>445</td>
<td>723</td>
<td>864</td>
<td></td>
</tr>
<tr>
<td>Industrial production index (1990=100)</td>
<td>86.8</td>
<td>79.4</td>
<td>51.1</td>
<td>45.2</td>
<td>42.9</td>
<td></td>
</tr>
<tr>
<td>Agricultural production index (1990=100)</td>
<td>79.6</td>
<td>80.8</td>
<td>67.5</td>
<td>65.8</td>
<td>59.3</td>
<td></td>
</tr>
<tr>
<td>Registered Unemployment at year-end (thousands)</td>
<td>70.5</td>
<td>83.9</td>
<td>82.2</td>
<td>126.9</td>
<td>351.1</td>
<td></td>
</tr>
<tr>
<td>Consumer price index (CPI) (monthly % change)</td>
<td>33.5</td>
<td>47.1</td>
<td>14.4</td>
<td>9.0</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Wholesale price index (WPI) (monthly % change)</td>
<td>36.6</td>
<td>46.5</td>
<td>19.8</td>
<td>8.7</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Trade Balance ($ bln.)</td>
<td>-0.6</td>
<td>-2.5</td>
<td>-2.6</td>
<td>-2.7</td>
<td>-4.3</td>
<td></td>
</tr>
<tr>
<td>Balance of goods and services ($ bln.)</td>
<td>n.a.</td>
<td>-0.8</td>
<td>-1.4</td>
<td>-1.2</td>
<td>-1.1</td>
<td></td>
</tr>
<tr>
<td>Foreign direct investments ($ bln)</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.3</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Consolidated Government budget balance ( % of GDP)</td>
<td>-12.2</td>
<td>-11.8</td>
<td>-7.8</td>
<td>-4.8</td>
<td>-3.2</td>
<td></td>
</tr>
<tr>
<td>NBU monthly refinancing rate: nominal</td>
<td>5.0</td>
<td>10.0</td>
<td>10.5</td>
<td>6.8</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>real (in relation to WPI)</td>
<td>-23.0</td>
<td>-24.9</td>
<td>-7.7</td>
<td>-1.8</td>
<td>2.7</td>
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</tr>
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</table>

*Source: UEPLAC, IMF, EBRD

After independence and until 1993 the full shock of the disruption of the supply sources and traditional markets, a disorderly price reform, uncontrolled fiscal deficits financed by monetary creation resulted in sharply accelerating inflation (culminating to 47% monthly rates, or more than 10000% a year), the absence of a credible currency and a continuously depreciating exchange rate. Consolidated budget expenditures amounted to more than 50% of GDP in 1994. Government deficit on a cash basis rose to 11.8% in 1993, and was considerably higher on transaction basis. After the 1994 presidential elections an ambitious reform programme introduced stabilisation measures characterised by a tight monetary policy, a contraction of public expenditures and a significant replacement of monetary financing of the deficit with domestic Treasury bills. This resulted in a gradual reduction of inflation and permitted the successful introduction in September 1996 of a new currency, the hrvnya (UAH), which remained fairly stable against the $.

The structural measures, in particular the reforms of the enterprise and financial sector, which should have accompanied stabilisation to create the conditions for growth, have been lagging. There has been little or no progress in the privatisation of large enterprises, the reform of the energy sector (to gradually liberalise prices and eliminate subsidies), the reform of the agricultural sector, the deregulation and administrative reform (to introduce and enforce adequate and stable legal and regulatory frameworks, to improve governance and reduce corruption), the reform of the tax system (to achieve an efficient mobilisation of resources through widening the tax base to include emerging activities, and lowering the excessive and often unpredictable tax burden on enterprises). The slow pace of structural reform translates into unfavourable conditions for entrepreneurial activity and, a fortiori foreign investments, a
general lack of financial discipline, the absence of competitive markets, extremely expensive and poorly performing financial services.
An extremely worrying factor is the accumulation of arrears in the whole economy. Early 1997 inter-enterprise arrears were estimated to over hryvnas 20 billion, equivalent to almost 25 per cent of GDP. A significant share of this amount is believed to reflect non payment of domestic energy bills. Much of these arrears reflects tighter credit conditions and are still rising due to the recent increase in lending rates and subsequent credit squeeze. In terms of Western commercial practice this would lead to the conclusion that most of the enterprise sector is insolvent and would consequently not be allowed to continue trading. Figures available for the public sector reveal a problem of major magnitude: budgetary wage, pension and social security arrears were at the beginning of 1998 about 2.7 bln UAH (3% of GDP), unpaid energy bills of budgetary institutions amounted to 4.5 bln UAH (5% of GDP), and arrears of payments on procurement of material of the Ministries of Defence and Law and Order amounted to 1 bln UAH (1.1% GDP). The persistence and the spreading across all sectors of this phenomenon has important macro-economic consequences. Besides undermining the credibility of the state, it maintains in existence and blocks resources in non viable enterprises and it has generated complicated and inefficient, although fairly effective, system of payments in the form of barter trade which is now generalised and dominates most transactions.

From 1994 onwards most experts forecast a recovery of the Ukrainian economy to start in the following year. Many Tacis projects also relied on the assumption that the economic climate would soon improve, thus positively contributing to their effectiveness. These optimistic assumptions did not materialise up to now. This suggests to be very careful as regards prospects of the Ukrainian economy in the short and medium run. A real recovery of the economy, which would imply a strong growth of productive investments, will not take place until the legal, fiscal and financial environment of enterprises becomes such that private entrepreneurs, whether local or foreign, feel confident enough to invest in the creation of new enterprises and the modernisation of existing enterprises. Considering the pace of reform over the last three years, the achievement of such conditions might be postponed to the medium term.

### 1.3 Government Policies and Priorities

These rather gloomy economic developments reflect the lack of consistency and continuity in the reform policies. Under the Presidency of Leonid Kravchuk (December 1991 - July 1994) economic policy in Ukraine has been inconsistent or even contradictory. Initially the Government embarked on a policy very similar to the one implemented in Russia by Mr Gaïdar and the “reformers”: laws were prepared, adopted and implemented on privatisation, liberalisation of prices and external trade, management reform of State enterprises, support to the development of private enterprises, etc. However, confronted with a steep decline of economic activity and growing inflation, both phenomenon being hardly avoidable consequences of the transition process in its first stages, but aggravated in the case of the Ukraine by the break-up of the former USSR, Government and Parliament soon reversed this policy in favour of a renewal of public interventions in all spheres of the economy.

Whereas nearly 90 per cent of all prices had been liberalised by the beginning of 1992, this figure had fallen back to about 30 per cent by the end of 1993. Since then the price system has been largely liberalised again, with the exception of the energy sector.

With the election of Leonid Kuschma as President in July 1994 and of a new Parliament one month later economic policy entered a new phase. After protracted negotiations with the Parliament, a Constitutional Agreement and a Law on Powers were adopted in June 1995. These two documents establish a presidential regime with significantly enlarged powers granted to the President.

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9 L. Kuschma had previously headed the Government cabinet from October 1992 to September 1993.
In October 1994 President Kuschma presented to the Parliament the reform programme which he intended to implement. The main features of this programme were:

- a reform of public financing based on a strict separation between public finances and bank credit as well as on a decentralisation of the government budget;
- a reform of the fiscal system including the introduction of a VAT replacing sale taxes;
- a monetary reform and the creation of a new currency;
- the liberalisation of the foreign exchange market;
- a reform of the banking system implying the dismantling of State monopoly in this sector and the establishment of a two tier banking system comprising a central bank acting independently of the Government and a large network of private commercial banks;
- the liberalisation of prices and a step-by-step phasing out of all price subsidies;
- the abandonment of the principle of sector management of the economy by line ministries;
- the rapid implementation of a corporatisation and privatisation process of State enterprises through the distribution of vouchers to Ukrainian citizens;
- a support to the development of the private sector;
- the recognition of the right of individuals and institutions to own land;
- the liberalisation of external trade.

However, in spite of extended powers granted to the President, the content of the reform programme, especially as regards structural changes, as well as the rhythm of its implementation, very much depend on the willingness of the Parliament to co-operate. Since 1994, the Ukrainian Parliament has often attempted to curb the reform programme and has actually been able in many cases to delay, weaken or even reverse major reform measures. The implementation of reforms is furthermore hampered by the inertia if not hostility of many administrative bodies.

The privatisation process of enterprises is a significant example of the difficulties which the reform process is facing. Presidential decrees were issued in 1994 and 1995 which set objectives and procedures aiming at a completion of the privatisation process by the end of 1996. Actually, the pace of this process, which had been very slow in the earlier years, accelerated significantly. The number of privatised enterprises increased from 11,552 by the end of 1994 to 28,272 one year later and 48,225 by the end of 1996 (50,547 by end-March 1997). In most cases, management staff and employees of the privatised enterprises were granted a preferential treatment which resulted in a majority of shares retained by insiders. As a consequence little has up to now been changed in the way enterprises are managed while in many cases local administrations, if not ministries, continue to intervene in their day-to-day management. While most small enterprises have been privatised, many medium and large enterprises still remain under State property. Some of these latter have been put on lists grouping those enterprises which should not be privatised or under very restrictive conditions. In the industrial sector, whilst 72 per cent of all enterprises had been privatised by the end of March 1997, these enterprises accounted for only 52 per cent of the total industrial output.

Furthermore, in the agro-industrial sector, the Parliament, overriding a presidential veto, adopted a law which states that collective farms should detain at least 51 per cent of the shares in all enterprises collecting, processing, storing or distributing agricultural products. This restriction, reinforced by effective obstacles raised against the privatisation of farms and a moratorium on land sales, tends to maintain the agro-industrial complex which prevailed under the command economy and allows for in-depth interference of local authorities with the management of these enterprises.

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10 A description is provided in annex 2.
11 By end-March 1997 there were only 35,427 private farms against 31,983 by end-December 1994; they cultivate less than 2 per cent of the total agricultural surface.
As regards taxation, a VAT was actually implemented. But, up to May 1997 and the adoption of a new law, taxes paid by enterprises were not deducted from taxes collected, so that the so-called VAT was a mere tax on sales at a very high 20 per cent rate. As for the profit tax, it was based on the difference between sales and material purchases whether paid or not. Since wages were not deducted, this so-called profit tax was nothing but an additional tax on value added. Since material purchases were deductible from the tax base, even when not actually paid, enterprises had a strong incentive to delay payments to their suppliers.

In short, one can say that structural reform is going on, but on a somewhat winding if not erratic path. As a consequence of these deficiencies Ukraine has not been able to meet in 1997 the conditions set by the IMF for granting an Extended Fund Facility.

The March 1998 Parliamentary election has increased the conservative representation in Parliament from 30 to 40% which could further weaken the margin of manoeuvre of the Government. However, tensions between Government and Parliament are not the only limiting factor for the implementation of reforms. The lack of administrative reform, a domain which is the sole competence of the Government, has been a severe constraint in the management of the transition and little progress has been done in simplifying the cumbersome administrative structures with unclear and overlapping responsibilities, or improving the credibility and accountability of the administrations. The need for the current Government to speed up reform before the next presidential elections of 1999 might create the incentive to move faster in this direction.

1.4 Overview of EU Assistance to Ukraine

Table I-1.2 indicates the amounts of financial assistance allocated to Ukraine over the period 1991-1997.

Substantial material aid has been provided to Ukraine in support of the transition process, combining macro-financial assistance (balance of payments supports) in the form of loans - so far amounting to ECU 285 mn - linked to the implementation of economic reform measures and progress on nuclear policy, humanitarian aid related to the problems arising from the Chernobyl disaster, and technical assistance through the Tacis programme complemented by specific facilities, and through special programmes to support nuclear safety. Technical assistance, of all types, is the most important component of the EU support.

Table I-1.2 shows that the two main forms of grant assistance to Ukraine, sector programmes under the Tacis annual programmes, and nuclear safety have been rising fast over the first three years of intervention, to reach the peak level of 73.8 MECU in 1993. 1994 marked a sharp decline in the Tacis funding which was marked in all sectors, except energy and environment and probably due to a low progress of implementation in other sectors. From 1995 funding resumed at a rate comparable to the pre-1994 situation but has been limited to the sectors Enterprise Restructuring and Development, Energy and Environment and Human Resources; simultaneously increasing use has been made of the facilities which provide on average, after 1995, additional resources equivalent to 20-30% of the Action Programme.

If nuclear safety is included, the annual growth trend of Tacis funding to Ukraine from 1991 to 1996 was much faster than for the Tacis programme as a whole - more than doubling over the period, as compared with an increase of barely 40 per cent in the annual allocations to all beneficiary countries.

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12 The table, based on available documentation, is not complete nor fully consistent. See ADE, Annex 10 of Interim report of Phase 1, op.cit., for a discussion of the problems of obtaining consistent quantitative data on EU assistance to Ukraine.
Consequently the country’s share of Tacis funding rose from around 7 per cent in 1991 to almost 13 per cent in 1996. This increase is clearly consistent with the general EU policy of treating Ukraine as a priority partner among the NIS.

**Table I-1.2: EU assistance to Ukraine. Commitments in MECU**

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<td></td>
<td></td>
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<td>285.0</td>
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<tr>
<td>Macro-financial assistance</td>
<td>85.0</td>
<td>200.0</td>
<td>285.0</td>
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<td>II. Grants</td>
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<td></td>
<td>438.6</td>
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<td>A. Tacis Action programmes</td>
<td>24.5</td>
<td>48.2</td>
<td>42.0</td>
<td>27.0</td>
<td>32.0</td>
<td>27.4</td>
<td>30.8</td>
<td>35.5</td>
<td>267.4</td>
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<tr>
<td>(ERD)</td>
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<tr>
<td>Food &amp; agriculture (F&amp;A)</td>
<td>7.6</td>
<td>11.6</td>
<td>10.5</td>
<td>5.0</td>
<td>1.0</td>
<td>1.8</td>
<td>1.5</td>
<td>4.2</td>
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<tr>
<td>Energy &amp; environment (ENE)</td>
<td>6.1</td>
<td>8.0</td>
<td>5.4</td>
<td>12.0</td>
<td>6.9</td>
<td>8.5</td>
<td>9.6</td>
<td>62.8</td>
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<td>Transport &amp; Telecom. (T&amp;T)</td>
<td>4.8</td>
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<td>0.0</td>
<td>2.0</td>
<td>1.8</td>
<td>20.2</td>
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<tr>
<td>Human resources dvpt. (HRD)</td>
<td>4.6</td>
<td>3.0</td>
<td>6.4</td>
<td>4.0</td>
<td>7.0</td>
<td>7.8</td>
<td>8.0</td>
<td>43.8</td>
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<tr>
<td>Unallocated</td>
<td>3.8</td>
<td>1.7</td>
<td>3.4</td>
<td>3.0</td>
<td>1.5</td>
<td>3.9</td>
<td>17.3</td>
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<td>B. Facilities (FAC)</td>
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<td>Tempus (TEMPUS)</td>
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<td>4.8</td>
<td>4.0</td>
<td>4.0</td>
<td>20.4</td>
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<tr>
<td>Bangkok</td>
<td>2.3</td>
<td>0.8</td>
<td>0.9</td>
<td>0.0</td>
<td>1.3</td>
<td>3.9</td>
<td>n.a</td>
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<td>Democracy (DEMO) and Lien</td>
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<td>0.5</td>
<td>1.5</td>
<td></td>
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<tr>
<td>Others</td>
<td>1.5</td>
<td>5.2</td>
<td>3.5</td>
<td>10.2</td>
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<td></td>
<td></td>
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<tr>
<td>C. Nuclear safety</td>
<td>3.5</td>
<td>22.0</td>
<td>30.5</td>
<td>24.5</td>
<td>13.4</td>
<td>37.5</td>
<td>n.a</td>
<td>131.4</td>
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<tr>
<td>D. Humanitarian Aid</td>
<td>4.2</td>
<td>1.9</td>
<td>1.3</td>
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<td>E. Interstate programmes</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
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<tr>
<td>Total EU Assistance (I+II)</td>
<td>28.1</td>
<td>70.2</td>
<td>72.5</td>
<td>140.7</td>
<td>251.3</td>
<td>77.3</td>
<td>43.5</td>
<td>723.6</td>
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</table>

Sources: Various AP and Desiree database (see ADE, Interim report of phase I, op. cit., annex 10). EBRD TA Co-operation Funds Programme (Bangkok), various documents on facilities.

As can be seen from Table I-1.3 (which relates only to the Tacis Action Programmes, without the facilities), the sector receiving the largest share of funding has been Enterprise Restructuring and Development, with 81 MECU, or 30% of the total allocated for Ukraine for the period 1991-97 with a peak of 45% for the AP 1997. The figures also shows a progressive increase in attention to this sector, from 6% in 1991 to 45% in 1997. The reduction observed in the 1998 Action Programme corresponds to a redirection of Tacis intervention in favour of institutional building and development reforms (classified under human resources development).

**Table I-1.3: Tacis technical assistance to Ukraine: Distribution by sector in %**

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<tbody>
<tr>
<td>Total TA (Tacis Action Programmes)</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
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<td>100%</td>
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<tr>
<td>Enterprises restr. &amp; dvpt. (ERD)</td>
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<tr>
<td>Food &amp; agriculture (F&amp;A)</td>
<td>31%</td>
<td>24%</td>
<td>25%</td>
<td>19%</td>
<td>13%</td>
<td>6%</td>
<td>4%</td>
<td>16%</td>
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</tr>
<tr>
<td>Non Nuclear Energy &amp; environment (ENE)</td>
<td>25%</td>
<td>17%</td>
<td>13%</td>
<td>44%</td>
<td>22%</td>
<td>23%</td>
<td>28%</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Transport &amp; Telecom. (T&amp;T)</td>
<td>20%</td>
<td>17%</td>
<td>8%</td>
<td></td>
<td>6%</td>
<td>5%</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human resources dvpt. (HRD)</td>
<td>19%</td>
<td>6%</td>
<td>15%</td>
<td>15%</td>
<td>22%</td>
<td>29%</td>
<td>10%</td>
<td>23%</td>
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</tr>
<tr>
<td>Unallocated</td>
<td>9%</td>
<td>6%</td>
<td>11%</td>
<td>11%</td>
<td>5%</td>
<td>11%</td>
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Of the remaining sectors on which the programme has focused the major beneficiaries over the whole period have been Energy and Environment (62.8 MECU or 23% per cent of the total from 1991-98) and

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13 Attribution to Tacis sectors may be arbitrary since 1997 and 1998 AP use different sector classifications.
14 Subtotal facilities may be more than the sum of components due to lack of information on specific facilities.
Human Resources and Institutional Development (43.8 MECU or 16% of the total from 1991-98). However, as the table shows, the allocations to both sectors have been very uneven over the period. The fall-off in allocations to both (a) Food Production, Processing and Distribution and (b) Transport and Telecommunication reflects their progressive downgrading in the country programme. These figures should be read keeping in mind the important additional resources in the form of facilities. A large share of facilities (Tempus, Lien and Democracy) correspond to human resources development activities while the others concern all other sectors.

These budgetary allocations are the result of the objectives pursued by the action programmes (see infra section 2.2) but they are also a consequences of changes in the Tacis operational services approach as reflected in the successive reorganisations of DG IA Tacis. The early months of Tacis were a period of crash interventions. They were followed by a reorganisation of Tacis into 5 units in 1993: two units were in charge of political co-operation and economic affairs (one for Russia and the other one for other CIS countries). The three other units had responsibilities for specific areas of intervention: economic reform and private sector development, human resources, social and policy advice. So far the relation had been essentially that of a relationship with CIS as a whole. The weakening of CIS as a structure and more and more independent republics imposed a more focused country approach. A new organisation, country based, was put in place by mid-1995 with three regional units which were given full responsibility for all EU actions in a group of countries (political agreements, trade agreements, design and management of Tacis intervention, co-ordination of interventions undertaken by other DGs). One of these units is dealing with Ukraine, Belarus and Moldova. A new major restructuring is taking place and will be implemented this year with the creation of a common service taking over all activities associated with the implementation, control and evaluation of international aid managed by DGI (Phare and Tacis programmes, assistance to the Mediterranean countries and to Latin America and Asia) and DG VIII (assistance to Lomé countries).

1.5 Other Donor Interventions

Since independence Ukraine has benefited from substantial bilateral and multilateral donor assistance. The overall support of the EU, Commission and member states, amounts to ECU 4.2 billion in the period 1991-1997, of which 1.8 billion in grants.

USAID has been the second bilateral donor and its 1997 programme amounted to $ 225 mln.

The principal multilateral donor programmes are those of the International Monetary Fund (SDR 1.6 bln over the period 1992-1996) and the World Bank (over $ 1 bln since 1991). Most of the funds disbursed by both these agencies have taken the form of programme loans linked to the fulfilment of agreed policy reforms in the context of a policy dialogue. The World Bank has also provided significant loans in support of infrastructure projects, principally in the energy sector. The other agency to offer project finance on a significant scale is the European Bank for Reconstruction and Development (EBRD), which had committed a total of around ECU 400 mn as of early 1997 (since starting operations in Ukraine in 1993), of which just over ECU 100 mn had been disbursed.

As is apparent from the Indicative Programmes and successive Action Programmes, the EC has consistently stated its commitment to co-ordinate its aid programme with those of other donors in order to (a) avoid wasteful duplication of activities and (b) maximise the impact of programmes by exploiting the scope for complementary intervention and "synergy". The potential benefits of the latter approach are evident in areas where Tacis, which is intended primarily to fund technical assistance and is precluded from making significant finance available for capital investment, is able to complement investments to be funded by the World Bank or EBRD, which have limited capacity to finance TA. This commitment in principle to try and ensure that the programmes of the different agencies are mutually supportive is explicitly provided for, in relation to the EBRD, through the Tacis Bangkok facility.
2. **THE TACIS NATIONAL ACTION PROGRAMMES**

The following overview of the successive national Action Programmes, based on the multiannual indicative programmes agreed upon between the Ukrainian and the EC authorities, permit to visualise the evolution of the perception by the EC of the situation and constraints in Ukraine and to follow the evolution of objectives pursued by the Tacis programme.

<table>
<thead>
<tr>
<th>Perception of Ukraine situation by EU</th>
<th>Overall Objectives</th>
<th>Specific objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Action Programme 1992</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic and monetary policy are</td>
<td>To assist the transition towards</td>
<td>Intervention in each Tacis sector with mixture of actions which</td>
</tr>
<tr>
<td>incoherent; economy is not stabilised and structural reform are still to be decided. Politically, Parliament and Government are divided on the path to follow to achieve reforms</td>
<td>free market environment. To develop local skills and know how to accelerate economic reform</td>
<td>will help achieve quickly tangible and replicable improvements and long term actions which are the prerequisite to longer term changes and benefits.</td>
</tr>
<tr>
<td><strong>Action Programme 1993</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ukraine is facing deep macro-economic imbalances and hyper inflation; output is falling. Politically, lack of decision has led to slow progress in the establishment of market economy and development of regulatory framework. Basis legal framework of privatisation is in place.</td>
<td>To assist transition building on the basis created by the 1992 programme. To support the Government in the formulation and implementation of new and on-going reform measures. Objectives at federal policy level complemented by focus on two geographical areas.</td>
<td>Concentration on two focal sectors (ERD, F&amp;A) with a mixture of institution building (privatisation, policy advice) and assistance to immediate problems (restructuring, support to particular agricultural productions). Priorities in other sectors are maintained.</td>
</tr>
<tr>
<td><strong>Action Programme 1994</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic policy continues to lack consistency and economy remains destabilised. Energy supply shortages aggravate the situation. Politically, the 94 elections have not resulted in a clear mandate for reform. Progress towards regulatory framework remains slow. However, Government has shown determination in the enterprise privatisation (small and medium in particular) and in the military complex reconversion. No progress in reforming the agricultural sector.</td>
<td>To alleviate structural constraints to the transition in providing support to the institutions of the central government in design and management of overall reform strategy. Continuation of double geographical objective: federal and 2 regions.</td>
<td>Energy is now considered as the second focal sector, in place of F&amp;A. The objective is to reduce the dependence on Russian fuel, through improvement of energy saving and increase in supply. Priorities in other sectors maintained</td>
</tr>
<tr>
<td><strong>Action Programme 1995</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deepening of economic crisis till mid 1994 then beginning of effective stabilisation and liberalisation policy. Significant progress in privatisation. Favourable political evolution with election of Mr. Kuschma: sound reform strategy proposed to Parliament, improvement in relations with Russia, commitment to non nuclear status. Signature of the PCA with EU</td>
<td>Continuation of action at federal and regional levels.</td>
<td>Focus on ERD. In all sectors maintenance of the balance between strategy advice and institution building, and immediate actions. Introduction of facilities.</td>
</tr>
<tr>
<td>Perception of Ukraine situation by EU</td>
<td>Overall Objectives</td>
<td>Specific objectives</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>-------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td><strong>Action Programme 1996</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decline in output expected to end and the economy is stabilising under IMF programme. Small scale privatisation progressing well and large scale privatisation expected to be finished in 1997. Political progress have been substantial.</td>
<td>Implementation of EC/Member States/PCA and adaptation of institutional framework conducive to market economy.</td>
<td>Priority on institutional reforms and, in parallel, on the development of the private sector (post-privatisation support, financial sector and SME development) Promotion of energy saving and efficiency</td>
</tr>
<tr>
<td><strong>Action Programme 1997</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Successful stabilisation programme and introduction of hrvnja. However, sustainability of stabilisation compromised by economic recession. Micro-economic liberalisation well advanced. Weak corporate governance and under-developed institutional framework for a market economy. Politically, favourable evolution with adoption of new Constitution (1996), but democratic institutions and practices need consolidation; corruption is widespread and rule of law still weak.</td>
<td>Same as under 1996 programme.</td>
<td>Continuation of effort in three areas of concentration: institutional development and reform (comprising three new programmes with usual focus on strategic institution building and immediate visibility: support to the development of social assistance policy and services; establishment of a tourism agency in Crimea; TA to civil work enterprises ), private sector development, and energy and environment</td>
</tr>
<tr>
<td><strong>Action Programme 1998</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The AP recognises important political progress (domestic and international relations) but stresses the need to strengthen civil society and the rule of law, to clarify the division of power between the legislative, executive and judiciary branches and to further implement commitments towards the Council of Europe. On the economic front inflation has been curbed, but fiscal stabilisation is elusive and the real economy is declining.</td>
<td>The PCA entering into force in 1998 is providing the “economic and political values” Reaffirmation of the main goals of the programme: transition to market economy and strengthening democracy.</td>
<td>The three areas of concentration introduced under the 1997 AP are confirmed. Institutional development and reform focuses on actions to improve the legal framework, to facilitate the PCA implementation and to complement other efforts linked to the reform of the public administration. Assistance to the road administration is linked to a World Bank loan to the sector. In the area of private sector development, the specific objectives consist in supporting case by case privatisation, continuing support to restructuring through enterprise support programmes and specific sector restructuring programmes. A second region (Carpathian) is selected for the development of tourism. Past action in the financial sector is continued and expanded along the lines of the strategy agreed upon and reform of the accounting system is extended to the enterprises. In the energy and environment sector the focus is on institution building and</td>
</tr>
<tr>
<td>continuation of support to energy saving.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
This table, which provides a very broad overview of Tacis action, already permits to highlight a number of features of Tacis approach from the country programme point of view.

There has been a gradually focusing approach: widely spread with projects in every Tacis sector in the first Action Programme, the intervention is narrowed from the second Action Programme with the introduction of the concept of “focal sectors”. The weight of past intervention and the need for continuity in already undertaken actions leads to the ambiguous juxtaposition of focal sectors and the maintenance of priorities in other sectors. The broad contents of the successive Action Programmes show that the design of the overall country intervention is the result of the aggregation of sector projects corresponding to seemingly promising opportunities in priority sectors rather than a predetermined or negotiated support to policies which would then orient the contents of the programme and its sector components. This is conform to the demand driven approach of Tacis but a major redirection introduced in 1996 is confirmed and reinforced in 1997 and 1998. Up to the 1996 Action Programmes the focal sectors were reconsidered every year, new ones were introduced (e.g. ERD in 95) other were abandoned (e.g. F&A in 1994). From 1996 there is more continuity in the intervention strategy and an attempt to strengthen both the internal consistency of a particular Action Programme and the inter-temporal consistency of successive Action Programmes. This is particularly visible in the 1998 programme.
3. **Evaluation of the Annual Country Programmes**

3.1 **A Framework to Assess the Contribution of EU Assistance to the Transition Process**

An understanding of the required ingredients and the conditions for a successful transition are important both to design and implement appropriate intervention and to evaluate past action.

Four sets of conditions must be fulfilled to conduct to its term the process of transition of an economy:

- Achievement of an effective stabilisation;
- Completion of liberalisation and structural reforms;
- Correct sequencing of reform policies;
- Willingness to reform shared by the actors involved.

The first two sets correspond to the so-called “Washington consensus” on reform in Eastern Europe and the FSU; the last two emerge from the growing evidence that fulfilling this checklist of reforms is not sufficient to guarantee a successful transition.

**Stabilisation policy**

There is no doubt that effective economic stabilisation is a prerequisite; sustainable deficits permitting gradually to curb inflation and to establish a confidence inspiring currency are necessary for the proper operations of a market economy. Stabilisation policy is essentially a matter of macro-economic policy and is dealt with through the monetary and exchange rate policies and the fiscal policy. It implies:

- fiscal discipline aiming at limiting the total deficit to a small fraction of GDP (2 or 3%) without monetary financing nor accumulation of arrears; this may require a primary surplus if the interest charge on the public debt is important;
- restrictive monetary policy with possibly highly positive real interest rates moving gradually to market rates;
- a unified realistic exchange rate which gives credibility to the currency and maintains exports competitiveness in the context of liberalised trade.

Given its international responsibilities IMF led the stabilisation policy with Structural Transformation Facilities and standby arrangements. EU intervened with complementary macro-financial assistance and provided support to institutional building and policy advice.

**Completion of liberalisation and structural reforms**

Stabilisation is indispensable to make a market economy viable but it is not sufficient and alone it will not guarantee the transition to market system. It may even be harmful if the economy, locked in rigid inappropriate structures, is unable to adjust to the constraints induced by the stabilisation policy measures. In depth structural reforms are needed to organise the transformation of ownership rights and to create the conditions for the private owners to exercise their rights and to manage efficiently their assets.
• **Price liberalisation**
Is the abandonment of administrated prices and tariffs and their replacement by market prices and efficient tariffs. This reform is particularly crucial for the following reasons:
- its implementation is economically and politically difficult; it imposes drastic adaptation of relative prices which trigger off inflationary spirals and may affect dramatically the purchasing power of consumers and the cost structure of enterprises,
- its implementation has major effects on the budget and requires the transformation of implicit and non transparent subsidisation mechanisms by explicit subsidies which then need to be downsized or phased out,
- so long as it is not fully implemented latent inflation subsist, enterprises are either penalised by controlled prices and need subsidies or on the contrary benefit form implicit subsidies due to artificially low input costs; overall inefficiencies prevail and constitute a major obstacle to a viable market system;

• **Privatisation and enterprise restructuring**
Is the key reform of the transition and the most complex. Its objective is to improve the allocation of resources by orienting production towards consumer demands and letting investors respond to market incentives in taking risks with the assets they manage.
This reform requires political choices to decide type of privatisation and the instruments used to conduct it; it also requires the systemic building of the institutional organisation of the market and the intermediaries;

• **Financial sector reform**
Financial intermediation was negligible in command economies and largely limited to accounting and clearing operations. Capital accumulation and allocation of resources to investment was decided on a political and administrative basis. In a market economy the fundamental function of financial intermediation is precisely to facilitate the efficient allocation of saving flows to the financing of investment.
The transformation of the embryonic financial former socialist institutions faces several important issues:
- the treatment of the inherited assets and liabilities; most banks had non-performing loans which were a major hangover for their efficiency; these non performing loans also induce perverse banking behaviour since banks are tempted to hide them as long as possible and continue to lend further to ailing creditors in order to enable them to pay their interests on their loans,
- the privatisation of the banks is a necessary step towards increased efficiency of the banking system, since state ownership amounts to an implicit state guarantee, a factor which does not induce prudent credit; banks privatisation is linked to enterprise privatisation in so far as it is difficult to imagine private banks without private enterprises and private savings. Bank privatisation is usually a major political issue;

• **Budget and tax reform (including social security)**
The passage to a market economy requires a redesign of the role of the state in the economy and the budget and tax system need to be overhauled and reorganised from a triple point of view:
- its size; in most case this means to decrease the share of taxes and expenditures in GDP,
- its effectiveness: the capacity to collect all taxes due and to manage and implement the appropriations which have been decided,
- its efficiency which can be measured against the objective of economic growth and aims to minimise the economic cost of taxes and to maximise the returns on public expenditures;
• Social security reform and policy
  The social security is part of the fiscal system at large and its reform is part of that of the latter. However, it deserves special focus because of the additional stress it imposes on public finance in the transition process and the necessity to address new needs resulting form another form of economic organisation. Moreover, the lack of cost efficiency and targeting which characterises the social security operations in most former socialist economies makes their restructuring a crucial condition for the restoration of balanced public finance and the sustainability of the stabilisation;

• Labour market reform
  The labour market is submitted to a radical transformation by the transition and the subject of particular stress linked with the restructuring of the productive capacities. The reform of the labour market aims at promoting employment and labour mobility while offering legal protection to the workers without creating distortions or disincentives to work. The instruments are the building up of the mechanisms for efficient collective negotiations, supporting institutions for dissemination of information and placement, the organisation of retraining and upgrading;

• Legal and institutional reforms
  This relates to the working of the legal and institutional system supportive of a market economy:
  - the adjustment of economic laws (company, property, contracts, bankruptcy laws), regulations and procedures,
  - the effective implementation of the laws and regulations,
  - the development of assets markets,
  - the administrative reform.

The EU intervened in most of these reform areas. The systematic overview of these interventions will be postponed after the discussion on sequencing and willingness issues.

Correct sequencing

The difficulty of conducting, and thus assisting, a transition is aggravated by the fact that not only each reform is politically, financially and technically difficult to implement, but there is also a strong interdependency between different sets of reforms. Some reforms may not lead to satisfactory results if they are not preceded or accompanied by reform in other areas; in some cases a reform conducted without the necessary prerequisite may even be harmful. The main points are:

• The interdependence and the correct sequencing of stabilisation and liberalisation

  Reviewing the literature on complementarities of reforms in post-planning economies Friedman and Johnson\(^{15}\) develop a “payoffs matrix” showing the welfare costs and benefits associated with different combinations in the degree of advancement of the liberalisation and stabilisation policies. In the absence of any reform the payoff is 0 as indicated in the lower left case of the matrix (table I-3.1). Implementing liberalisation without stabilising will worsen the payoff because it will induce inflation. Pursuing stabilisation without liberalising will provide only limited welfare gains since enterprises will not have the incentives to upgrade their efficiency and to improve their product quality. The reasonable paths are those which either stabilise and liberalise simultaneously (shock therapy) or liberalise progressively in a stabilising environment.

**TABLE I-3.1: Payoffs matrix: stabilisation and liberalisation**

<table>
<thead>
<tr>
<th>Liberalisation policy</th>
<th>Stabilisation policy</th>
<th>No reform</th>
<th>Partial reform</th>
<th>Full reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full reform</td>
<td>-3</td>
<td>-2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Partial reform</td>
<td>-3</td>
<td>-2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>No reform</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

Assistance to reforms must take this into account in order to avoid excess speed in the liberalisation process or insufficient stabilisation which would both have important welfare costs. Thus a continuous analysis of the reform process and an assessment of what can be legitimately done at a particular historical moment is necessary.

- **The interdependence between stabilisation and a core of structural reforms**

Structural reforms cannot be implemented fruitfully in an unstable environment but simultaneously stabilisation is not sustainable if the structural reforms do not take place which permit the expansion of supply and the generation of additional fiscal resources and incomes. There is a hard-core of structural reforms which is a hard priority in this regard: the restructuring of the enterprise sector, the reform of the financial sector and the reform of the fiscal system (including social security). The reason is that the sustainability of stabilisation rests on the public finance. Sustainable public deficits require the decrease of the social and economic cost associated with inappropriate economic structures, and the additional incomes and resources resulting from successful restructuring. Given the intertwined nature of public enterprises losses, public finance deficits and financial sectors bad loans, working only on one of these components would prove ineffective. Even if banks balance sheets are cleaned and their professional know how upgraded they will not be able to perform if enterprises are loss making. Enterprises will not be able to perform if financial intermediation is ineffective. Public finance are at the core of the reforming process since, on the one hand, they need performing enterprises to mobilise resources, on the other hand, the restructuring process implies high public finance costs.

Again this has consequences for the provision of assistance: these core reforms are so essential that they deserve priority support, but also their evolution needs to be carefully followed and assessed for it conditions the possibility of successful operations of a number of many private sector development projects.

**Willingness to reform shared by the concerned actors**

Transition must also be analysed taking into account that it is a function of the bargaining conditions under which old interest groups manage to maintain power, or new groups come to the surface at the expense of others. According to this view Ukraine is a country where the command system collapsed due to its inefficiency and the declining capability of the Soviet Union to transfer resources permitting a minimum standard of living. The political struggle which followed destroyed the command economy pattern, but pressure for change came from above not from below. The lack of emergence of a new elite legitimised from below or with enough power to expect long-term rule explains the institutional instability and has so far prevented the construction of a state based on some elements of contract.

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Whether this view is too extreme is not the point here. It has the merit to stress that if those who are in
the position to decide are interested in implementing reforms insofar as they may consolidate their power
position but are not willing to change fundamentally the system of property rights with all the
consequences on the exercise of power, then some reforms may take place but transition will not occur.

With regards to the EU assistance to Ukraine this suggests two considerations:

- If the objective is to support transition as a systemic change it must be negotiated, since the
danger exists that an entirely demand led approach will call for support to specific reforms but
not for changes affecting the decision mechanisms of the society. In this regard the negotiation of
a Partnership and Co-operation Agreement between the Ukrainian Government and the EU is
welcome and important since it offers an umbrella under which a framework to privilege support
systemic change priorities can be built.

- At sector and project level design and implementation must take into account what are the
interests of the beneficiaries and the partner organisation (who are not always the same) in the
project and the chances that they commit themselves to its success.

3.2 **Evaluation of EC intervention in Ukraine, at country level**

To attempt an overall evaluation of the relevance and the performance of the EC intervention in
Ukraine, 8 criteria have been used; they are reviewed here under.


There is no doubt that the EU assistance to Ukraine has been in conformity with the general objectives
stated in the Council Decisions and the Common Position. This is also reflected in the high priority and
the important share given to Nuclear Safety. Whether the assistance packages proposed were the best
ones to contribute to these objectives is more questionable and the answer should come from the overall
evaluation of the actions undertaken.

Promotion of EU interests and enterprises has been conducted through undoubtful support to EU
consulting business. More transfer of professional know how through more technical projects could
have promoted, in certain areas, EU technical capabilities and enterprises, but in most cases sufficient
progress in the reform (regulatory framework, privatisation, etc..) was not reached to permit fruitful
developments along those lines.

(2°) Adequation to Ukrainian Government policies

The adequation to Ukrainian policies is an important factor of success. In that respect Tacis faced a
particularly difficult challenge in Ukraine since at times and in many areas there was either no
willingness to reform or no consensus on the directions of the reform, and therefore no clear
Governmental policies. The adequation of Tacis to Government policy was therefore necessarily fragile,
and Tacis attempted more to identify and support, with the co-operation of the CU, promising or non
controversial areas requiring assistance, rather than to help shaping reform policies.
(3°) Relevance of the composition of the programme

If there had been a clear policy on the Ukrainian side the application of the “demand driven” principle which is the basis of Tacis assistance, would automatically have led to national programmes reflecting the Government reform priorities and there should be little questions on its relevance. However, this was not the case and to avoid the translation of the demand driven principle into an inconsistent “shopping list” approach, a more proactive stance had to be adopted by the Commission.

The most visible aspects of this emerges from the historical overview of the Ukraine country programmes which reveals the gradual increase in the selectivity of the intervention. In parallel with this increased selectivity there has been a gradual decrease in the number of projects and an increase of their average size, as shown in table I-3.2, with the view of achieving critical mass and simplifying management.

\[
\text{\textit{Table I-3.2: Number of contracts and average contract size in MECU per budget year}}
\]

<table>
<thead>
<tr>
<th>Budget year</th>
<th>ERD Nr</th>
<th>ERD Aver.</th>
<th>F&amp;A Nr</th>
<th>F&amp;A Aver.</th>
<th>ENE Nr</th>
<th>ENE Aver.</th>
<th>T&amp;T Nr</th>
<th>T&amp;T Aver.</th>
<th>HRD Nr</th>
<th>HRD Aver.</th>
<th>All sectors Nr</th>
<th>All sectors Aver.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>5</td>
<td>0.575</td>
<td>7</td>
<td>0.897</td>
<td>9</td>
<td>0.692</td>
<td>3</td>
<td>1.590</td>
<td>2</td>
<td>2.032</td>
<td>26</td>
<td>0.932</td>
</tr>
<tr>
<td>1992</td>
<td>7</td>
<td>1.487</td>
<td>7</td>
<td>1.524</td>
<td>13</td>
<td>0.483</td>
<td>4</td>
<td>0.931</td>
<td>3</td>
<td>1.288</td>
<td>34</td>
<td>1.028</td>
</tr>
<tr>
<td>1993</td>
<td>5</td>
<td>1.811</td>
<td>4</td>
<td>2.511</td>
<td>8</td>
<td>0.515</td>
<td>8</td>
<td>0.398</td>
<td>5</td>
<td>1.705</td>
<td>30</td>
<td>1.164</td>
</tr>
<tr>
<td>1994</td>
<td>2</td>
<td>2.321</td>
<td>1</td>
<td>4.797</td>
<td>9</td>
<td>1.184</td>
<td>0</td>
<td>0.000</td>
<td>2</td>
<td>2.139</td>
<td>14</td>
<td>1.741</td>
</tr>
<tr>
<td>1995</td>
<td>6</td>
<td>1.121</td>
<td>2</td>
<td>1.912</td>
<td>6</td>
<td>0.776</td>
<td>1</td>
<td>0.606</td>
<td>2</td>
<td>2.280</td>
<td>17</td>
<td>1.198</td>
</tr>
<tr>
<td>Aver.91-95</td>
<td>1.348</td>
<td>1.696</td>
<td>0.710</td>
<td>0.768</td>
<td>1.807</td>
<td>121</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To go beyond this rather superficial conclusion it is necessary to refer to the framework of section 3.1 in order to attempt to analyse the adequation of the assistance offered with the needs of the transition. The following is a tentative classification of the type of assistance that can be relevant in the context of a transition.

A. Support to the Balance of Payments

B. Technical assistance and related equipment and training to support to the completion of liberalisation and structural reforms

1. Support to the reorientation of the role of the state
   1.1 To manage the transition reform
      Price liberalisation
      Privatisation/Restructuring

2. To manage Government activity in the context of a market economy
   Budget and tax reform; Public administration reform; Management of public assets
   Social security Reform; Labour market reform

1.3 To build up the regulatory framework

2. Support to the economic restructuring

3. Support to private or newly private agents to develop private sector activities more efficiently in the context of a market economy (and/or to protect them from the social consequences of the changes)
   3.1 Direct support (pilot projects, credit lines, etc.)
   3.2 Training and advisory services

C. Investment funding

Restructuring refers to specific transitory actions to cope with structural deficiencies inherited from the former system. “Normal” restructuring is a never a finished task in a market economy since its objective is to allocate productive resources more efficiently in order better to satisfy consumer demand and to avoid wasting scarce resources. In transition countries inherited deficiencies may call for specific transitory restructuring actions.
There is no doubt that the EU aid programme has addressed important issues related to all the areas of reform and has provided all forms of assistance, with the exception of investment which is normally funded by loans and, according to the regulations, can be provided by Tacis only with specific limitations (to serve as a catalysor for other interventions, to participate in co-financing, etc.).

Support to the stabilisation policies has been offered directly through two macro-financial balance of support loans and indirectly through institutional building and policy advice programmes.

The bulk of the Tacis programmes has been on supporting the structural reforms and the completion of liberalisation, many programmes offering the different types of support identified under item B of the above list.

However, the examination of the components of the EU programme gives the impression that each particular intervention addresses a real problem and makes sense, but it is less evident that they form a consistent contribution to the transition process in Ukraine. This can also be perceived in the Indicative Programmes which are more a list of “preferential areas of interventions” than a programme prioritising support needs taking into account a necessary sequencing of the reforms and strategic priorities.

In general the overall EU intervention pattern in Ukraine has not been designed and sequenced in the context of a policy dialogue leading to an articulation of all instruments (Government policy, donor assistance) on prioritised reform objectives. This has led to national programmes being a collection of generally good projects but not necessarily a well focused instrument to accelerate reform in Ukraine.

(4°) Complementarity with other donors

There is little or no real co-operation with other donors at the level of the overall EC intervention in Ukraine, but there is substantial and increasing co-operation at sector and instruments level:

- Macro-financial assistance has been co-ordinated with IFIs, but not with Tacis national programme. Co-ordination with other donors about the intervention strategy at country level was, however, fully realised in the case of provision of the macro-financial assistance offered to support an IMF stabilisation programme. Unfortunately it did not extend to the organisation of the complementarity of the other instruments with the macro-financial assistance. It has not been reflected in an adaptation of the design or the composition of the Tacis programmes to support the Ukrainian Government in meeting the conditionalities of the IMF and to pursue in priorities actions which would help stabilising the economy;
- Assistance in an increasing number of areas is designed with other donors: energy, financial sector and public administration are the most prominent examples; At project implementation level there is good co-operation in the field and this is encouraged by the organisation of regular co-ordination meetings;
- Instruments have been developed to support action of others: Bangkok; and some instruments are occasionally used to that end (for instance, an EES project to analyse transport sector policy for the World Bank).

(5°) Complementarity among instruments

The composition of the country programme in terms of mainframe projects and facilities is the result of logic’s which may be contradictory, since most facilities have their own objectives, defined at NIS level and not necessarily fitting in a national programme. The issue will be further investigated in section 9 of part II and in part III.
(6°) Visibility of Tacis and perception by the beneficiaries of the EC intervention

The experience of this evaluation team is that overall the Ukrainian officials and businessmen have no, or very little, perception of the Tacis programme of EC action as a whole, and even less of the overall EC intervention and action in Ukraine. Tacis name may be unfortunate due to the bad image of CIS in Ukraine, and the fact that this name does not convey the image of the EC (contrarily to USAID for instance).
On the other hand, beneficiaries of Tacis projects generally express satisfaction and the comparison they make with other donors is, in most cases, favourable to Tacis.

(7°) Geographical distribution of assistance

It is not clear what the ideal situation should be in this respect, since regional spreading increases visibility but may dilute impact. Moreover, all sectors are not equal in this regard.

- Distribution of restructuring projects (enterprises, agriculture, energy, transport) tends to reflect both the objective distribution of industrial structures and an EC willingness to focus on certain areas to have a critical mass and achieve some visibility; it is not always clear what is the rationality behind the selection of the target regions;
- Project in the social sectors (Tempus, employment) are regionally fairly widely and sensibly distributed;
- There is a tendency to reproduce regionally, through the creation of networks, successful actions such as SMEDAs, post privatisation centres; it is not certain that conditions justify these extensions, and that outside a very limited number of urban and industrial centres there is a potential and solvable demand for such structures;
- The development of tourism projects in the AP 1997 and 1998 in two regions (Crimea and the Carpathans) is justified in the corresponding APs by the fact that the PCA identifies tourism as an area of co-operation between the EU and Ukraine. It obviously also responds to a willingness to intervene and promote development in these regions but it is not demonstrated that it should be a priority support to reform the economy.

(8°) Articulation of country and inter-state programmes

Interstate programmes have not produced, in Ukraine, their expected results in terms of inter-republic co-operation. The Ukrainian component has always been managed and monitored independently from the rest, thus eliminating the justification for an interstate programme. In several occurrences the interstate dimension simply increased administrative complication, a price to pay for using this instrument to finance projects for which there were not enough resources in the Action Programme.
4. **Recommendations relating to the intervention at country (Ukraine) level**

These recommendations are divided in two groups, those which can be implemented immediately and those which require a more fundamental strategic redirection of Tacis intervention in Ukraine.

4.1 **Recommendations for immediate application**

(1°) The re-focusing of the 1997 and 1998 action programmes on three large areas: Institution Development and Reform, Economic Reform and Private Sector Development, Energy and Environment, is commendable and should be continued. Within these areas however the intervention logic could be strengthened to avoid a collection of disjointed projects.

(2°) Improve the complementarity between mainframe projects of the action programmes and the facilities. Current Action Programmes identify the main projects and a global amount for the facilities. In the case of Ukraine where many facilities have been used in a rather discretionary way to support mainframe projects or to fill gaps, it would increase the transparency and the effectiveness of the Action Programme if the facilities available for the country and their intended purposes were clearly identified in the AP.

(3°) The intervention logic should be based on more systematic risk assessment and in areas where there is no clear line of reform policy or no willingness to reform, intervention, if any, should be limited to harmless but useful actions (such as improvement of statistics, development of standards and norms, phytosanitary controls, etc.), unless the policy dialogue and the leverage of combined donor intervention can create sufficient incentives to induce a reforming action on the part of the Government.

4.2 **Recommendations for structural changes**

(1°) The Action Programme should be based on a policy dialogue.

Tacis in Ukraine, like in other countries and in compliance with the regulations, started as a demand driven programme. The assumption that the beneficiary government would have a clear view of the reform to conduct and the capability to address prioritised demands to support its efforts did not materialise and the (correct) reaction of the EC, largely under the impulsion of a very dynamic Delegation in Kyiv, has been to move from a “demand driven” towards a “dialogue driven” approach. Our recommendation is to go further along this road and to move towards a real policy dialogue. A multiplicity of policy dialogues between each donor and the Ukrainian Government should be absolutely avoided, all major donors should participate in the policy dialogue, and this would improve co-ordination and sharing of information among them. Recommendations on cross cutting issues in part III will discuss the requirements to conduct/participate in such dialogue.

(2°) Increase the time consistency of the intervention strategy at country level. It has been already highlighted that the Indicative Programmes are a list of preferred areas for intervention and not really a programming tool. They are no more than a reference for the Action Programmes and do not provide increased forward visibility. It is therefore recommended to replace the existing

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18 See also part II, section 8 and 9.
system - a 5 year Indicative Programme (which is not a committed allocation) completed by annual Action Programmes (the budgetary commitments) - by a country allocation covering several years (e.g. five) and based on a policy dialogue to identify an intervention strategy supporting agreed country policies and complementary with other donor interventions. Within this envelope, instead of committing funds for yearly multisector programmes, funds would be committed for specific sector programmes supporting the strategy. The approval of the Tacis Committee would therefore not be anymore required for the adoption of annual multi-sector Action Programmes which offer a procrustean framework for the sector intervention. Instead, the approval of the Tacis Committee would be required for consistent sector packages defined within the financial and chronological limits of the multi-annual allocation. This would give more visibility to the beneficiary country and give more scope for a fruitful dialogue on an intervention strategy. Under an agreed strategy, the margin of manoeuvre would be more important since approval from the Tacis Committee would be required at any time once a relevant sector programme is prepared.

(3°) Make a distinction between institution building not directly associated with investment and support to bring in finance and investment.

- Institution building and transfer of know how not directly associated with investment or provision of financial resources.
  This would cover the main sector projects conducted under the multi-annual allocation, either in pursuit of a mutually agreed policy or under the umbrella of a leader, and complemented with the facilities (except JVP and Bangkok, see infra);
- Institution building associated with investment or meant to bring in finance and investment from other sources (private sectors, institutional investors).
  While Tacis, with its limited resources in the form of grants, is not meant to provide substantial resources for investment, it must articulate its intervention so that when it does not stop short when it has successfully led to a situation where TA should normally be relayed by investment or provision of financial resources. This can be done with the development or expansion of existing instruments, like the revised JVP or an adapted Bangkok facility. These points will be further discussed in part II section 9.

The object of this recommendation is to plan a gradual move from pure TA towards more support to investment with a view on two strategic issues: development of institutional frameworks must remain the priority so long as their absence is an impediment for successful investments; assistance to investment should imperatively be conducted in conformity with market mechanisms.
Part II: Tacis Intervention in Sectors and Topical Areas

1. **Introduction**

Going from the country programme to the level of the main components of the AP, this part of the report analyses most sectors and areas which have been the object of significant Tacis support. The taxonomic organisation proved a difficulty. The five Tacis sectors\(^{19}\) are a convenient way to regroup data and global information on Tacis assistance but they do not correspond to homogeneous intervention logics, with the exception of some of them (like energy); in the ERD sector the financial subsector is handled rather independently from the SME sector; the HRD is a catch-all. Moreover, this sector distribution is not maintained in the 1998 AP as observed in part I, section 2. The situation is complicated by the facilities some of which can be easily traced to a sector, some not.

For these reasons we have adopted for part II an organisation which combines sectors, themes and instruments as follows:

- Privatisation restructuring;
- SMEs;
- Financial sector;
- Agriculture;
- Energy/environment;
- Transport/Telecommunications;
- Elements of human resources and institution building:  
  - Policy advice,
  - Social sector: employment,
  - Education/Tempus,
  - Public administration reform;
- Selected facilities (Policy Advice Programme, Bangkok, Joint Venture Programme, Productivity Initiative Programme, Bistro).

This is a compromise and results from the impossibility of being exhaustive while trying to offer a fair coverage of the very diversified Tacis intervention. Under each category a sample of projects have been analysed in depth, and this is related in the report of phase II, particularly in the attached project fiches. The proposed organisation implies some choices which may require a justification:

- Some sectors are analysed in more detail than others which may be quantitatively important but are not any more the object of a priority in current Tacis programming. This is why more attention has been paid to energy than to transport, for instance;
- Any breakdown of human resources and institution building can only be arbitrary. Policy advice is not a Tacis subsector but it is a crucial activity dealt with at several levels and it was found useful to provide an overview. Social security is an important and difficult area where Tacis intervened with various actions. We have privileged an analysis based on the support provided to the creation of employment and retraining services, as examples of activities ignored in a command economy and falling under the responsibility of the public authorities in a market economy and therefore justifying assistance; moreover, programmes in this areas were very advanced or completed. Other supports in the social security area would have deserved analysis but either no more documentation was available after the departure of the principal actors, or the projects were just starting;

\(^{19}\) Enterprise Restructuring and Development (ERD), Food and Agriculture (F&A), Energy and Environment (ENE), Transport and Telecommunications (TPT), and Human Resources Development (HRD).
- Training is not analysed as a specific sector but is captured through the various projects since it is pervasive in most interventions;
- Education/Tempus and public administration reform are the object of more cursory analysis. Tempus has been the object of a comprehensive evaluation\(^\text{20}\) elsewhere. Public Administration Reform is represented in Ukraine by an old project under the 1992 AP, and by a large new project of the 1996 AP, which is just starting. At the end of phase I of the present evaluation it had been agreed not to analyse this area, but given its importance a few comments and recommendations will be offered;
- The selected facilities are only a sample but they permit to cover a number of important issues.

Each area will be the object of a section organised in a similar way: 2 subsections will provide factual information on the reform to support and the overview of Tacis resources made available. Three sections will convey the main results of the in depth project evaluations conducted under phase II. The main conclusions will then be synthesised and regrouped for each sector/area in a similar table (based on the methodological approach laid out in annex 1) in the form of answers to the following questions:

**Table II-1.1: Set of questions for the evaluation of Tacis sector and thematic programmes**

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Was the reform to support well identified? Insufficiently identified? 2. EU Intervention strategy 2a. Was there a clear one? 2b. Was it likely to stimulate &amp; support the reform? 2c. Had EU intervention the critical mass necessary to have an impact on the reform? 2d. If not was EU intervention well co-ordinated with other donors? 3. Was the partner organisation well chosen? 4. Were the ToRs still adapted to the actual situation at the starting time of the projects?</td>
<td>1. Were the expected outputs effectively delivered? 2. Did the intervention meet its targets in terms of timeliness and delays? 3. Has the PO or the beneficiary taken ownership of the output of the intervention? 4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergence of views between various actors on the EC side?</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc..)? 2. Has there been an impact on the process of reform, such as: 2a. Change in ways of doing things, work attitudes, etc.? 2b. Change in decision process? 2c. Acceleration of the reform process? 3. Has there been impact in terms of restructuring of the economy? 4. Has there been a replication of a successful project? 5. What is the chance of continuation after end of Tacis support?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A final subsection for each area will incorporate the recommendations of the evaluation team. Since the conclusions point to very similar recommendations in most sectors, only recommendations which are sector specific will be included here, while the general ones will be taken care of in the final section of part III.

2. ENTERPRISE PRIVATISATION AND RESTRUCTURING

2.1 REFORM TO SUPPORT

The objective of the reform of the enterprise sector, which is central to the transition process, is to make enterprises viable under the conditions of a market economy. It requires the development of a competitive productive base responsive to prices and incentives and capable of supplying the markets with products for which there is a demand. A number of conditions are necessary: institutional reforms to free enterprises from state intervention and make them centres of decision, existence of competing producers, a performing financial system to facilitate intermediation and channel savings to the best investment opportunities, a price system determined by market forces, etc. The ultimate goal is restructuring, i.e. reallocation of resources, production factors and activities in order to make the firms profitable in a competitive environment and to avoid wasting scarce resources. In a market economy restructuring is never a finished task and it is a permanent object of efforts of both the managers of enterprises and the macro-economic policy.

In the process of transition from a command to a market economy this general restructuring goal is pursued through two policy instruments: privatisation which aims at decentralising decisions since it has been historically observed that it would improve efficiency, and specific transitory restructuring actions to cope with the major inefficiencies inherited from the former system.

It is generally admitted that firm level restructuring is better done by private investors, hence that privatisation should come before restructuring. Exceptions exist in sectors which generate externalities.

Privatisation in Ukraine has been a complicated and frequently changing historical process. It reflects the political sensitivity but also the different vested interests and conflicting views regarding the extent and the pace of privatisation. The issues are many, two have been particularly important in explaining the changes of policies in Ukraine:

- The effectiveness of privatisation. While nominal privatisation, i.e. corporatisation and transfer of majority of shares to private owners, is relatively easy to achieve it is in no way sufficient to achieve a more efficient management of enterprises. Therefore there is much debate on the privatisation strategies and the respective merits of the two extreme models: mass privatisation vs. case by case. The expected advantages of mass privatisation is speed but it does not bring in fresh capital and, in absence of an efficient capital market, it may not lead to improvements in management. Therefore case by case privatisation may be advocated as a better way to find strategic investors but it is a slow process. While these questions were totally open at the beginning of the transition, evidence has progressively accumulated and empirical studies conclude that mass privatisation is performing better and leads to quicker effective restructuring. On the other hand, case by case privatisation is preferable to bring cash to the public finance;

- Internal vs. external privatisation. In any country it is a major issue to decide how far the former workers and managers of a state enterprise should be privileged in acquiring shares of their company when it is privatised. In Ukraine the initial steps of the reform have strongly favoured leasing and internal buy out operations. Further steps have modified this strategy but in general “internal privatisation” remains rather dominant.

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21 A description is provided in annex 2.
Up to now there has not been in Ukraine any significant restructuring of enterprises. This situation reflects in the lasting presence of loss-making enterprises which continue their operations by financing them with a growing stock of debt. Banks which, either are subsidiaries of industrial conglomerates or restrict their activity with enterprises to the supply of short term credit, have no direct implication in the restructuring of enterprises. The very large amount of accumulated inter-enterprises arrears, of which more than 80 percent are circular, prevents the enforcement of the bankruptcy law as long as a netting-out exercise has not taken place.

The need for enterprises restructuring is especially acute in the Eastern regions of Ukraine, notably in the Donietks-Donbass area, where most large enterprises of the heavy and mechanical industries are located.

The main reasons for the slow restructuring process are to be found in the slow pace of privatisation, in the large proportion of internal privatisation which tends to keep in place a management biased in favour of preserving employment and maintaining high wages, in the difficulty to cope with the social consequences of restructuring, the lack of financial sector reform, and non supportive general economic conditions. As long as privatised enterprises are not submitted to a hard budget constraint, their management is prone to delay the moment where difficult decisions have to be taken.

2.2 Overview of Tacis intervention

Table II-2.1 presents the main interventions in the area which amount to more than 40 MECU so far. Tacis addressed the problem of privatisation since the very beginning of its intervention in Ukraine responding to the successive demands of the Government and co-ordinating its efforts with those of other donors in order to exert some leverage on the Government to speed up reform.

In the area of privatisation Tacis first interventions were projects\textsuperscript{23} to support case by case privatisation in selected sectors. This successfully led to one privatisation\textsuperscript{24}. After the 1994 election, Tacis provided major support to the mass privatisation\textsuperscript{25} to permit the State Property Fund to achieve the ambitious goals set by the President in response to pressure from the donors. Mass privatisation, whose quick implementation was largely due to Tacis support, was effective but could not cope with a number of difficult cases such as complex “kombinats”, enterprises being quasi monopolies for natural or institutional reasons, strategic enterprises, etc. Tacis, therefore, assisted the SPF in tackling these problems on the basis of two pilot cases\textsuperscript{26} in order to derive lessons and improve privatisation methods and procedures. When it became clear that mass privatisation would be continued by case by case privatisation in order to, among other reasons, generate income for the public finance, Tacis provided support to this type of action. In parallel with its other interventions, Tacis helped restructuring the SPF to strengthen its capacity to cope with its many duties\textsuperscript{27}. More recently Tacis moved from direct support to the privatisation process to the development of the accompanying regulatory framework with support to the Antimonopoly Committee (AMC) of Ukraine in completing the legal framework on competition and developing tools for enforcing antimonopoly regulations.

\textsuperscript{24} The privatisation of the chocolate factory of Trostinets sold to Jacobs Suchard.
\textsuperscript{25} See Project Evaluation Note 1-1 in Volume II.
\textsuperscript{26} See Project Evaluation Note 1-2 in Volume II.
\textsuperscript{27} See Project Evaluation Note 1-3 in Volume II.
Table II- 2.1: Tacis main interventions in privatisation and restructuring

<table>
<thead>
<tr>
<th>Sector and type of intervention</th>
<th>Action Programme</th>
<th>N° of projects</th>
<th>MECU28</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Privatisation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case by case privatisation</td>
<td>1992</td>
<td>7</td>
<td>10.032</td>
</tr>
<tr>
<td>(industrial vehicles, confectionery, care and garments)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support to mass privatisation</td>
<td>1993</td>
<td>1</td>
<td>3.998</td>
</tr>
<tr>
<td>Regional privatisation/restructuring projects (Lugansk, Zaporozhye)</td>
<td>1993</td>
<td>2</td>
<td>1.150</td>
</tr>
<tr>
<td>Privatisation of difficult cases (automotive, ceramic enterprises)</td>
<td>1994</td>
<td>1</td>
<td>0.989</td>
</tr>
<tr>
<td>Case by case privatisation</td>
<td>1995</td>
<td>1</td>
<td>1.200</td>
</tr>
<tr>
<td>Case by case privatisation</td>
<td>1998</td>
<td>1</td>
<td>2.000</td>
</tr>
<tr>
<td><strong>Enterprise and sector restructuring</strong></td>
<td></td>
<td>13</td>
<td>26.304</td>
</tr>
<tr>
<td>Conversion of 6 enterprises in Ukraine</td>
<td>1993</td>
<td>1</td>
<td>2.906</td>
</tr>
<tr>
<td>Post-privatisation support Europe - Kyiv</td>
<td>1994</td>
<td>1</td>
<td>4.148</td>
</tr>
<tr>
<td>Post-privatisation support - Lviv and Kharkiv</td>
<td>1995</td>
<td>2</td>
<td>3.800</td>
</tr>
<tr>
<td>Post-privatisation support to the construction sector</td>
<td>1996</td>
<td>1</td>
<td>2.000</td>
</tr>
<tr>
<td>Establishment of a Tourism agency in Crimea</td>
<td>1997</td>
<td>1</td>
<td>1.750</td>
</tr>
<tr>
<td>Redeployment of the steel industry</td>
<td>1997</td>
<td>1</td>
<td>1.000</td>
</tr>
<tr>
<td>Support to post privatisation Lviv and Kharkiv, Eastern Ukraine</td>
<td>1997</td>
<td>2</td>
<td>4.000</td>
</tr>
<tr>
<td>Conversion and restructuring of Pevdensmash</td>
<td>1997</td>
<td>1</td>
<td>1.000</td>
</tr>
<tr>
<td>Restructuring Pharmaceutical industry</td>
<td>1998</td>
<td>1</td>
<td>1.700</td>
</tr>
<tr>
<td>Enterprise support programme</td>
<td>1998</td>
<td>1</td>
<td>2.500</td>
</tr>
<tr>
<td>Tourism &amp; business dvpt in the Carpathian Region</td>
<td>1998</td>
<td>1</td>
<td>1.500</td>
</tr>
<tr>
<td><strong>Building/strengthening of institutions and regulatory framework</strong></td>
<td>1993</td>
<td>4</td>
<td>3.880</td>
</tr>
<tr>
<td>Advice to SPF (negotiation task force)</td>
<td></td>
<td>1</td>
<td>0.700</td>
</tr>
<tr>
<td>Support to restructuring SPF</td>
<td>1995</td>
<td>1</td>
<td>1.184</td>
</tr>
<tr>
<td>Support to Anti-Monopoly committee</td>
<td>1995</td>
<td>1</td>
<td>0.496</td>
</tr>
<tr>
<td>Support to the accounting reform of enterprises</td>
<td>1998</td>
<td>1</td>
<td>1.500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>24</td>
<td>40.216</td>
</tr>
</tbody>
</table>

In the area of restructuring, Tacis contributed to the creation of post-privatisation centres in Kyiv, Kharkiv and Lviv. These are consultancy firms, established as joint stock companies, concentrating Ukrainian expertise in the area of business advice and restructuring. Whereas the partner organisation was the SPF or the oblast administration in the initial phase of these projects, this responsibility was passed to the post-privatisation centres themselves as soon as they had accessed to legal existence. Tacis provided technical assistance for the establishment of these structures, for their staffing and for the training of their staff. Ukrainian consultants recruited by the post-privatisation centres were given intensive formal training as well as on-the-job training while assisting European experts with the restructuring of a few enterprises or providing on their own short-term assistance to enterprises.

Parallel to interventions at the enterprises level, Tacis contributes to the design of sector restructuring programmes. In the steel industry, Tacis financed under its 1995 A.P. a comprehensive survey of the sector which concluded to a large over-capacity of the industry aggravated by a discrepancy between the product structure and the pattern of demand; it issued recommendations for the handling of this situation through the closure of some units and the modernisation of other ones. A second phase of this project will assist the Ukrainian Ministry of Industry with the implementation of this sector restructuring strategy. A similar project dealing with the construction industry was included in the 1996 A.P. and another one focused on the pharmaceutical industry in the 1998 A.P.

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28 In general, budgetary figures refer to contracted budgets for projects under Action Programmes prior to 1996, and to commitments for 1996 and subsequent years.
2.3 **RELEVANCE AND APPROPRIATENESS**

Tacis projects to support privatisation have a number of common features:

i° Their identification generally resulted from the search of good projects to respond to the needs of the moment and assistance requirements of the Government. Their design was therefore not submitted to a strategic view of the Commission on what kind of privatisation process should be preferably supported nor on precise instructions on how this should be done. This characteristic had several implications. First, an extreme flexibility in the response provided to the Government since there was no a priori view of the EC on what to do and how to do it in this field, but simply a willingness to accompany with the most efficient assistance the policy choices of the Ukrainian authorities. Second, due to operational delays in the preparation phase of projects it appeared frequently that projects were designed when a particular policy seemed to be at the order of the day, but launched after major inflections had been brought; this resulted in the need to adapt significantly the project design. Such example is provided with the mass privatisation project. Third, the lack of consistent strategic view on the EC side created, at times, difficulties with other donors. While there has been a good consensus, and rather fruitful co-operation, between all donors to support mass privatisation, the subsequent move of EC to support again case by case privatisation is a source of divergence with USAID who considers that donors should press the Government on privatising as many as possible medium and large enterprises through transparent and publicly announced mass privatisation procedures completed with the development of the capital market. This USAID consistent strategy is based on theoretical and empirical considerations but is also motivated by more tactical ones such as the interests of US investors. Whatever the reasons, these differences of approach are perfectly perceived by the SPF who carefully selects which department and which projects to propose for assistance by one or the other donor. This is not always improving the consistency of the privatisation strategy and procedures in Ukraine.

ii° On practically all the privatisation and restructuring projects of Tacis in Ukraine, the same external expert has been consulted by the successive task managers and sector experts of the Delegation to identify projects, prepare terms of reference, and act as an intermediary between the Commission services (TM and Delegation), the beneficiaries and the contractors. Given the turnover of Commission staff, the line of continuity has been provided by this external expert to the point that both contractors and beneficiaries are systematically relying on her views and discussing with her all matters of substance. The administrative arrangements are then finalised with the EC staff who evidently know the file and examine the decisions but have little input in fundamental orientations.

iii° Good complementarity is observed between different privatisation projects and between privatisation and restructuring projects. This is favoured by the presence of the same qualified consultant assisting the Commission on all the projects of this sector, and by the good relations between contractors, this consultant, the Commission services and the beneficiaries. When identified, problems are communicated and can be remedied with complementary actions or new projects. So, for instance, weaknesses in the SPF gave rise to a project to restructure this organisation; limits of mass privatisation induced attempts to assist with the privatisation of difficult cases, etc.. This approach strengthens the consistency of the whole programme but it often leads to designing projects as a response to problems which could have been avoided if a more strategic approach had been adopted making sure that the project would be manageable in the existing institutional context, and in the negative, providing in priority the assistance to improve this context.

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29 Which does not prevent USAID to intervene in the agricultural sector with projects which are very similar to the Tacis supported case-by-case privatisation projects.
A specific problem has been encountered with the “Strengthening and restructuring SPF” project because the ToRs did not mention, not even hinted, that technical support provided by a former project would have to be continued at all cost, otherwise a number of essential functions within SPF would be put at risk.

Post-privatisation centres are a follow-up of mass-privatisation. They aim at creating the capacity to assist recently privatised medium-sized enterprises with the design and implementation of the transformations which have to be brought to their organisation and management in order to improve their economic performance.

Contrary to what was the original project design, the legal basis of the Kyiv PPC had been established by the SPF before the project started. This resulted in an inappropriate shareholdership. In Kharkiv and Lviv, on the contrary, the search for shareholders was part of the project. Actually these two centres were established with a financial involvement of Ukrainian banks. These are genuinely interested in the development of the centres which can supply them with business information and assist them with the restructuring of enterprises which they have in investment their portfolio.

The sector restructuring studies aim at providing an assessment of the strengths and weaknesses of the Ukrainian industrial capacity in the analysed sectors on the background of actual and forecast developments domestic and foreign markets. On this basis they provide line ministries with recommendations for restructuring.

2.4 Effectiveness

All privatisation projects have been logically implemented through the State Property Fund. The institutional and managerial problems of the institution had an adverse effect on project implementation but this was generally mitigated by the good relationships the contractors in this sector could establish with the Fund; they were largely the result of competence and professional credibility. However, complicated situations occurred when projects involved enterprises as partner organisations. The identification of these enterprises is part of the project, and their co-operation has to be negotiated within its implementation. The contractors of the projects examined in this evaluation were very careful to negotiate memoranda of understanding between all parties involved, but it was observed that when the willingness of an enterprise to undertake a restructuring or to sell parts of its assets was weakening, the SPF did not or could not exert the necessary pressure to force the enterprises they have the responsibility to privatise. The Statement of Endorsement signed by the partner organisation (SPF in this case) before the tendering out of the project does not contain precise commitments in this regard.

Implementation problems were observed when projects were relying on actions undertaken by other donors who did not deliver in time what was expected from them.

Overall, privatisation projects have provided effective assistance to the implementation of the privatisation process and the definition of procedures. The contractors delivered very professional outputs and operated substantial and highly appreciated transfers of know how.

Post-privatisation projects were very effective. With a budget of ECU 2 million each and over a period of 30 months they succeeded in building from scratch self-sustainable Ukrainian consultancy firms, each of them employing about 10 Ukrainian consultants who have acquired the capability to assist Ukrainian enterprises in designing and implementing restructuring plans. It must however be noticed that all three projects have had to be extended from an initial duration of 18 months and their budget increased accordingly.

30 For instance USAID in the case of mass privatisation.
The implementation of these projects was monitored by Managerial Committees in which all parties interested were represented: SPF or oblast administration, shareholders of the post-privatisation centre, Tacis managers from the Brussels headquarters and from the Kyiv delegation, Contractor, Monitoring Unit. These committees which met as often as monthly in the earlier stages of the project implementation favoured a quick decision-making process when projects were facing difficulties. However, they did not succeed in preventing administrative delays in the extension of the contracts.

The steel sector analysis, the only one which has been completed up to now, supplied a clear diagnostic of the situation of this industry and made recommendations as regards its restructuring.

2.5 **IMPACT AND SUSTAINABILITY**

Impact of EC interventions in the area of privatisation has been extremely limited: privatisation remains slow, there are few foreign investments, difficult case enterprises have not been privatised, not even restructured, assistance to SPF has somewhat changed the working attitudes but not the decision patterns. This results largely from political blockages and institutional instability.

As long as the restructuring process is hampered by the deficiencies of the legal and institutional framework, the impact of post-privatisation centres remains limited. Managers of these centres acknowledge that the market does not presently exist for the restructuring services which they are willing and capable to supply. These centres are nevertheless self-sustainable. But they cover their costs through the provision of more basic business services to local or foreign enterprises and their development is hampered.

Would the market for assistance to restructuring exist, one can wonder if the supply of the corresponding services would not have developed without any EU intervention, notably through the establishment of Ukrainian subsidiaries by international consulting firms.

Tacis has addressed restructuring with the development of new support institutions specialised in assisting firm restructuring. An alternative policy would have been to support in priority reforms which would have induced accelerated restructuring, for instance involvement of the financial sector in restructuring, stricter macro-economic policy with hard budget constraints, faster privatisation but strengthening of capital markets. There is no evidence that these alternative would have produced better results, but it is an issue which has not been thoroughly investigated before Tacis adopted a particular strategy of intervention.

As regards sector restructuring analysis, their impact will depend on the willingness and political capability of the line ministries to build upon their conclusions and recommendations to design and to implement restructuring strategies.
### Table II. 2-2: Main conclusions regarding evaluation of Tacis intervention in privatisation/restructuring

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to privatisation</td>
<td><strong>1. Was the reform to support well identified?</strong> Unclear and frequently changing views on the Ukrainian side (with divergences between President/Government and Parliament, and enterprises staff/trade unions/managers) regarding the desirable speed of privatisation, type of enterprises to privatise, as well as privatisation strategy. On the donor side the objective of changing the ownership rights as the corner stone of the reform was clearly asserted.</td>
<td><strong>1. Were the expected outputs effectively delivered?</strong> In general, in all privatisation projects expected outputs have been delivered. In the mass privatisation project, output have exceeded all expected targets. <strong>2. Did the intervention meet its targets in terms of timeliness and delays?</strong> Quasi all projects had to go for extensions, in most cases, but not always, budgetary neutral.</td>
<td><strong>1. Has there been an impact on the partner organisation and/or the beneficiary?</strong> Mass privatisation had a clear impact on the SPF and developed the capacity in this institution (at national and regional level) to deal adequately with the process. Case-by-case privatisation led to one successful privatisation. Other projects had impact in the form of delivery manual and procedures, restructuring and business programmes which can serve as templates. <strong>2. Has there been an impact on the process of reform such as:</strong> 2a <strong>Change in ways of doing things, work attitudes, etc.</strong>? Clear upgrading of the professional capacity and change of work practices in several departments of SPF.</td>
<td>EC legitimately stepped into this major component of the reform. Experience shows that there has been much success with the development of procedures, regulatory framework and capacity building to manage mass privatisation. However, severe limitations were encountered linked to the political situation, the institutional and professional weakness of the SPF. More direct intervention in the privatisation of specific enterprises, apart from one success, were met with very limited results both in terms of impact on the enterprises themselves, and in terms of their privatisation.</td>
</tr>
<tr>
<td>Support to privatisation</td>
<td><strong>2a. Was there a clear one?</strong> No clear EU intervention strategy but an attempt to identify good projects which would accompany and strengthen the Government strategy of the moment.</td>
<td><strong>2b. Was it likely to stimulate &amp; support the reform?</strong> Apart from the support to mass privatisation EU intervention strategy was marginal in terms of support to the reform but was reasonably designed to be exemplaristic, to transfer know how and to increase professional capacity. <strong>2c. Had EU intervention the critical mass necessary to have an impact on the reform?</strong> Support to mass privatisation had the critical mass to influence the reform. Other projects, see 2b.</td>
<td><strong>2b. Change in decision process?</strong> No change of the decision process in SPF.</td>
<td></td>
</tr>
<tr>
<td>Support to privatisation</td>
<td><strong>3. Has the PO or the beneficiary taken ownership of the output of the intervention?</strong> SPF has well appropriated the TA, techniques, manuals provided. For the other projects there has generally been an uncertain appropriation by the beneficiaries; appropriation by the SPF as partner organisation would have implied that this institution exert more pressure on the beneficiaries than it did.</td>
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<tr>
<td>Support to privatisation</td>
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</tbody>
</table>
**Table II. 2-2 (Continued): Main conclusions regarding evaluation of Tacis intervention in privatisation/restructuring**

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
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<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2d. If not was EU intervention well co-ordinated with other donors?</td>
<td>4. Was the effectiveness of the projects hampered by rigidities in implementation procedures or divergences of view between various actors on the EC side?</td>
<td>2c. Acceleration of the reform process? Mass privatisation of small and medium enterprises has been accelerated significantly.</td>
<td>2. Co-ordination with other donors, as far as the choice of an intervention strategy is concerned, is an issue since EU and USAID have different views. 3. Was the partner organisation well chosen? The PO is necessarily the SPF, whatever its weaknesses. The selection of beneficiaries in the difficult cases privatisation project can be questioned. 4. Were the ToRs still adapted to the actual situation at the starting time of the projects? In most cases situations were completely different and required substantial adaptations, imposing extension of the inception phase, at the minimum.</td>
<td>3. Relevance and appropriateness: The choice of an intervention strategy is critical. The adaptation of ToRs to actual situations is essential. 2. Effectiveness/ownership: The effectiveness of the projects was often hampered by rigidities in implementation. 3. Impact and sustainability: The impact was limited, especially in the difficult cases. 4. Overall: The intervention was not sufficiently well co-ordinated and adapted.</td>
</tr>
<tr>
<td>Enterprise restructuring</td>
<td>1. Was the reform to support well identified? Insufficiently identified?</td>
<td>1. Were the expected outputs effectively delivered? PPC projects were successful in creating highly professional business advice centres. The restructuring study of the steel sector supplied clear conclusions and recommendations.</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know-how, etc..)? Yes. PPCs projects operated a large transfer of know-how.</td>
<td>1. Insufficiently identified. The reform to support was not well identified. 2. PPC projects were successful. 3. Yes, there has been an impact on the beneficiary.</td>
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<td></td>
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<td>Through the PPC projects the EU made an important contribution to the development in Ukraine of a capacity to assist enterprises in the much needed process of restructuring.</td>
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</tbody>
</table>
### TABLE II. 2-2 (Continued): Main conclusions regarding evaluation of Tacis intervention in privatisation/restructuring

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
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<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. EU Intervention strategy</td>
<td>2a. Was there a clear one? EU strategy is twofold: (i) build an Ukrainian capacity in the area of enterprises management and restructuring (ii) design restructuring strategies at the sector level.</td>
<td>2. Did the intervention meet its targets in terms of timeliness and delays? It was clear from the start that PPCs projects would have to be extended and would require additional means.</td>
<td>2. Has there been an impact on the process of reform, such as: 2a. Change in ways of doing things, work attitudes, etc.? 2b. Change in decision process? Attitudes, ways of doing things and decision process have changed in the enterprises which benefited from restructuring plans within the PPC projects. 2c. Acceleration of the reform process? PPCs are capable of assisting enterprises in undertaking a restructuring process. But they did not succeed up to now to persuade the huge majority of enterprise managers to embark on this process.</td>
<td>However, as long as interventions at the enterprises level are not supported by an appropriate policy at the central level, their impact remains very limited.</td>
</tr>
<tr>
<td>2b. Was it likely to stimulate &amp; support the reform? Post-Privatisation Centres (PPCs) are likely to favour the restructuring of enterprises ... provided there is willingness of enterprises management to embark on a restructuring process. Similarly, sector restructuring studies should yield positive results provided line ministries implement their recommendations.</td>
<td>2c. Had EU intervention the critical mass necessary to have an impact on the reform? Yes. The EU contribution in this area is significant.</td>
<td>3. Has the PO or the beneficiary taken ownership of the output of the intervention? In Kharkiv and Lviv shareholders, managers and employees of the PPCs are highly committed to the development of the centres. Some problems arose in Kyiv because on an inappropriate shareholdership. As regards sector restructuring very much will depend on the willingness and capacity of line ministries to implement the studies recommendations.</td>
<td>3. Has there been impact in terms of restructuring of the economy? Sector restructuring studies might have a significant impact. But it is too early to assess if the line ministries will implement their recommendations.</td>
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<tr>
<td>2d. If not was EU intervention well coordinated with other donors? Other donors intervene in the development of management capacity but mainly through support provided to existing institutions.</td>
<td>3. Was the partner organisation well chosen? To establish the partner organisation was an important component of the PPC projects. As regards sector studies, line ministries had to be the partner.</td>
<td>4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? Management committees favoured a smooth implementation of the projects. However administrative delays created problems when it came to extend the contracts for the implementation of PPCs.</td>
<td>4. Has there been a replication of a successful project? The relative success of the Kyiv PPC led to the launching of similar projects in Kharkiv and Lviv.</td>
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</table>
### Table II. 2-2 (Continued): Main conclusions regarding evaluation of Tacis intervention in privatisation/restructuring

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<th>Overall conclusions and observations</th>
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<td></td>
<td>4. Were the ToRs still adapted to the actual situation at the starting time of the projects?</td>
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<td></td>
<td>Yes</td>
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<tr>
<td>Support to building/strengthening of institutions and regulatory framework</td>
<td>1. Was the reform to support well identified?</td>
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<td></td>
<td>Yes</td>
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<td></td>
<td>2. EU Intervention strategy</td>
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<tr>
<td></td>
<td>2a. Was there a clear one? Clear willingness to support SPF as main actor. Reform to support legal and regulatory framework is rather ad hoc. Accounting reform of enterprises is a fundamental step and logically articulated on implementation of IAS in banks.</td>
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<td></td>
<td>Yes</td>
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<td>2b. Was it likely to stimulate &amp; support the reform?</td>
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<td></td>
<td>Yes</td>
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<td></td>
<td>2c. Had EU intervention the critical mass necessary to have an impact on the reform?</td>
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<td></td>
<td>Yes, TA was provided in sufficient quantity and with adequate support.</td>
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<td></td>
<td>1. Were the expected outputs effectively delivered? So far as expected output were limited to proposals for restructuring an institution, manuals, training, study tours and visits they have been effectively delivered. When they had to be followed by assistance to implementation difficulties arose due to lack of willingness of PO.</td>
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<td>2. Did the intervention meet its targets in terms of timeliness and delays? Many and substantial delays resulting from low or insufficient co-operation of PO.</td>
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<td></td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc..)? Positive impact of advice, professional support, seminars and workshops.</td>
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<td></td>
<td>2a. Change in ways of doing things, work attitudes, etc.? Support to restructuring SPF has influenced work attitudes. Support to AMC has drawn attention on problems of unfair competition.</td>
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<td>2b. Change in decision process? Very limited because legislative changes which would permit it have not taken place.</td>
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<tr>
<td></td>
<td>In this difficult area the approach has been very ad hoc. The main weaknesses we identify are:</td>
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<td>• a lack of identification of the real bottlenecks to the privatisation process and of the actions required to remove them;</td>
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<td>• a lack of assessment of the risks and external factors (such as the need for new legislation) preventing TA to be followed by effective transformation.</td>
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<td></td>
<td>• a lack of leverage on the PO. On the other hand the quality of assistance provided has generally been very good and beneficial to the individuals if not to the institutions.</td>
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</tbody>
</table>
### TABLE II. 2-2 (Continued): Main conclusions regarding evaluation of Tacis intervention in privatisation/restructuring

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<th>Overall conclusions and observations</th>
</tr>
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<tbody>
<tr>
<td>2d. If not was EU intervention well co-ordinated with other donors? Relatively good co-ordination with other donors, although some difficulties with USAID in supporting SPF as a result of different views on privatisation strategy.</td>
<td>3. Has the PO or the beneficiary taken ownership of the output of the intervention? In general good appropriation by the PO of training etc. but limited acceptance of consequences in terms of action or internal reorganisation. Insufficient leverage of Tacis on PO.</td>
<td>2c. Acceleration of the reform process? Very limited for reasons invoked under 2b.</td>
<td>2c. Acceleration of the reform process? Very limited for reasons invoked under 2b.</td>
<td></td>
</tr>
<tr>
<td>3. Was the partner organisation well chosen? For these projects there could not be other POs.</td>
<td>4. Were the ToRs still adapted to the actual situation at the starting time of the projects? Since institutional setting is changing continuously it could not be the case. ToRs in this area in general coped with this by allowing reasonable flexibility and stressing importance of inception phase. A major weakness of strengthening of SPF project has been the ignorance that the computer system developed under mass privatisation project would require major resources if SPF was to remain operational</td>
<td>3. Has there been impact in terms of restructuring of the economy? No.</td>
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<td></td>
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<tr>
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<td>4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? Delays and lack of transparency in the provision of contract (restructuring SPF project) have created considerable uncertainty and, at times, blocked the project.</td>
<td>4. Has there been a replication of a successful project? Irrelevant.</td>
<td>4. Has there been a replication of a successful project? Irrelevant.</td>
<td></td>
</tr>
<tr>
<td>5. What is the chance of continuation after end of Tacis support? Permanent dependency of SPF on EC may result from the incapacity (and unwillingness to devote necessary resources) of SPF to maintain, develop and upgrade its ETAP computer system, without which it can not operate. Durable results have been achieved in terms of technology transfer on unfair competition; sustainability of effort on implementation of anti-monopoly rules hampered by lack of adoption of necessary laws.</td>
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</tbody>
</table>
2.7 **Main Recommendations on Privatisation/Restructuring**

**On privatisation:**
- Analysis of Tacis intervention shows a very good record in supporting the mass privatisation and much poorer achievements in its effort to achieve individual privatisation deals. On this basis we would recommend to move away from the latter and to invest rather in developing the framework, the institutions and the procedures permitting to apply rapid privatisation, based on standard and transparent procedures, to the remaining state sector. To do so requires two conditions which may not be present at the moment and were present when mass privatisation was assisted: a receptiveness and a willingness of the Ukrainian authorities, a common vision and effort of all donors;
- If, because the conditions to support rapid privatisation are not met, Tacis wants to be involved in case-by-case privatisation, as indicated by the 1998 AP, we recommend that the lessons of former exercises, including privatisation of difficult cases, be carefully taken. In particular: selected enterprises should accumulate a maximum of factors which reasonably permit a successful operation. They should not be on a strategic or negative list, and have a real chance to find an investor within the short delay of a project (on this basis one would give preference to enterprises producing final goods for which there is a local market). The beneficiary, i.e. the selected enterprises should participate in the design of the project and not discover it and be asked to agree with its terms.

**On restructuring:**
- Implementation of the PPC projects was very successful. However, because there is no real pressure on enterprises to improve their financial results, the impact of these projects remains very limited. We would therefore recommended that more attention is devoted to the achievement of a higher level of consistency and complementation between interventions at the enterprises level and interventions aiming at the design and implementation of a policy promoting the restructuring of enterprises. Such a policy would include the adoption and actual implementation of a bankruptcy law, removal of subsidies to loss-making enterprises, a strict banks supervision, a clearing of inter-enterprises arrears;
- As regards sector restructuring studies, the corner stone for the impact of these interventions will be the willingness of line ministries to build upon their conclusions and recommendations to design sector restructuring policies and to implement them. This will very probably request (and might be an opportunity for) an involvement of EC officials into a policy dialogue with the Ukrainian government.

**Institution building:**
- Institution building in this area requires to be accompanied by legislative changes or policy decisions to lead to implementation. As exemplified with the assistance to the AMC and the SPF. This can be necessary, even to conduct the actions envisaged in the ToR of a particular project. We recommend that longer periods are foreseen to permit the counterparts to react to the proposals of the contractors with these necessary changes (two weeks or one month as often envisaged is clearly unrealistic). We also recommend that if no decision is taken the assistance be stopped and the resources reallocated. In that case it may be fair to indemnify the contractors but it would be less expensive than keeping afloat a project which cannot produced its intended output;
- The question of the sustainability of the computer system (ETAP) in the SPF should be addressed so as to avoid both evils: a disruption of the activity of this institution due to the suspension of EC support, or a never ending assistance. The situation experienced under the SPF restructuring project should not be repeated. The solution lies probably in a temporary specific assistance combined with a commitment of SPF to allocate out of its own budget the necessary resources to maintain and upkeep its system.

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31 A reallocation of a major fraction of the project resources to the computer system to keep it operational.
3. **SMEs (Small & Medium Sized Enterprises)**

3.1 **The Reform to Support**

The Ukrainian government has two main aspirations:

- privatisation of state owned property;
- creation of a large private SME sector.

These mainly remain intentions without all the necessary practical policies required to realise these objectives. The political, economic, legal and financial environment is still unfavourable to SME development. Therefore, the government and the European Commission agreed that technical assistance should be provided to encourage the development of the SME sector under the Tacis 1992 Action Programme.

3.2 **Overview of Tacis Intervention**

The Tacis programme aiming at the development of SMEs (Small & Medium Sized Enterprises) is implemented as part of the Enterprise Restructuring and Development Programme, and its programme objective therefore should be seen as an integral part of the contribution to the creation of a financial and commercial infrastructure, essential for a free market economy. In particular, the SME programme focuses at “people who want to set up their own businesses, need to know how to do this, and like to make contacts with EC companies”.

The intention is to create lasting support structures and training links and promote confidence, rather than short term advice, i.e. institution building is an essential element in the Tacis approach. In this context Tacis approach has been focused on the creation of BCCs and SMEDA, starting with Kyiv and Zaporozhye. This heavy effort has been complemented by ad hoc use of facilities to provide specific assistance to SMEs.

<table>
<thead>
<tr>
<th>Sector and type of intervention</th>
<th>Action Programme</th>
<th>N° of projects</th>
<th>MECU32</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Communication Centres (BCCs) and SMEDAs</strong></td>
<td></td>
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</tr>
<tr>
<td>BCC and SME Devpt. Agency Kyiv</td>
<td>1992</td>
<td>1</td>
<td>3.088</td>
</tr>
<tr>
<td>BCC and SMEDA in Zaporozhye</td>
<td>1993</td>
<td>1</td>
<td>0.306</td>
</tr>
<tr>
<td>Support to SMEDA Kyiv</td>
<td>1996</td>
<td>1</td>
<td>1.000</td>
</tr>
<tr>
<td>Extension of Ukr. Network of SMEDAs</td>
<td>1997</td>
<td>1</td>
<td>2.500</td>
</tr>
<tr>
<td><strong>Various supports (twinning, etc.) (Facilities)</strong></td>
<td></td>
<td></td>
<td><strong>0.230</strong></td>
</tr>
<tr>
<td>Managers exchange programme</td>
<td>1993</td>
<td></td>
<td>0.120</td>
</tr>
<tr>
<td>Twinning Trade Associations</td>
<td>1993</td>
<td></td>
<td>0.110</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>7.124</strong></td>
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</tbody>
</table>

32 In general, budgetary figures refer to contracted budgets for projects under Action Programmes prior to 1996, and to commitments for 1996 and subsequent years.
3.3 Relevance and Appropriateness

The SME approach of Tacis was to set up new organisations - the Business Communication Centres (BCCs) and Small & Medium Sized Enterprise Development Agencies (SMEDAs), to perform functions done by other types of organisation in Europe or the USA, such as Chambers of Commerce/Industry.

The BCCs focus on providing business information on foreign (EU) markets to local entrepreneurs, and on local markets and investment opportunities to foreign entrepreneurs. SMEDAs promote business awareness, and provide information and counselling, training, and specialist consultancy and business planning services, to starting entrepreneurs and existing SMEs.

Both these two models belong to a pattern tried out over virtually the whole CIS and Mongolia. BCCs and/or SMEDAs were established more-or-less in parallel in: Moscow, St. Petersburg, Minsk, Kishinau, Baku, Tbilisi, Kutaisi, Almaty, Kyiv, and Zaporozhye. The intention being in each case, that once the central BCCs and SMEDAs were operating satisfactorily, regional branches would be developed.

These are actually imposed models, which contain elements of SME support models developed by the European Commission with the member states. These structures are the main channels through which most projects try to achieve their objectives.

Logically, the appropriateness of the design of the BCC and SMEDA instruments becomes one of the important explanatory variables in the success of the Tacis support programme. It can be said that the SMEDA model, if implemented flexibly, has been shown to be a workable model, addressing genuine needs of the SME community, whereas the BCCs appear in the present state of economic development of the SME sector to be less appropriate. Both designs have problems with sustainability, particularly the BCCs because the market for their services is not yet developed.

3.4 Effectiveness and Efficiency

In Ukraine, the SMEDA in Kyiv has been very successful, as related below. The BCC in Kyiv and the BCC and SMEDA in Zaporozhye have been failures. There regional differences result probably from the fact that, due to the status of capital city of Kyiv, more SMEs, in particular in service areas, were created there than in other regions, offering thus more scope for a support agency.

The PO on the Ukrainian side was originally the Ukrainian Association of Private Entrepreneurs. The SMEDA which was created had its own legal identity, personnel, premises and facilities. The SMEDA eventually became the PO - the Agency for the Development of Enterprise (ADE). The selected contractor who managed this assistance had a considerable experience with SMEs support agencies in Western Europe.

Excellent working relationships were established between the PO and project staff at an early stage. In particular, the executive director of ADE was energetic, influential, well connected politically, and fully committed to its success.

The project has been outstandingly successful. All the objectives, including the extension, appear to have been achieved. It has delivered all the planned outputs in the TOR, and a number of others as well.
The ADE has managed to create a strong profile in Kyiv and the Ukrainian SME community, and among other donors and policy makers. It is engaged in training both existing entrepreneurs and starters, and counselling, including business planning. It has managed to attract other development projects, funded by, a.o., Dutch and Italian donor programmes. The Project Preparation Unit (PPU) has gained the trust of most of the Ukrainian banks participating in the EBRD SME credit line, with its Business Plans developed for private businesses.

The BCCs have not demonstrated that there is a priority demand for their services. The BCC in Kyiv is dormant, and ADE has now started to provide information services.

A vicious circle is at work: the absence of enabling economic conditions prevents the development of SMEs and therefore the demand for the services of such structures as the SMEDAs and BCCs. On the other hand the services offered by these structures are not of such a nature that they can generate the conditions which will stimulate the emergence of SMEs and therefore the demand for the services of SMEs supporting agencies. The provision of technological support to the SMEs would partially improve the situation, and in this regard other instruments like the European Senior Service Network (ESSN) are probably performing better, provided the right match can be organised between the demanding SMEs and the provision of managerial services.

It should be noted that the SME sector within EC-Tacis has had a high rate of turn-over of Task Managers, which has resulted in a lack of continuity and of timely decision making and support from the side of Brussels. This situation has improved with the later Task Managers after the beginning of 1996, who appeared to take more interest.

3.5 **Impact and Sustainability**

Independent research commissioned by the Agency of Development of Enterprises indicates clearly that clients who availed of its services were helped to initiate or develop a private company, and value its services.

All those who have been trained and supported by ADE represent a potential new wave of entrepreneurs in 2-3 years time. ADE’s impact should not be judged only in the short term.

Overall, however, impact on private sector development has been limited. Research within the EU has shown that the largest impact on SME development is caused by changes in the legal, administrative and fiscal environment. The second factor is access to finance and banking services. Direct counselling and information provision rank only third among the factors influencing the development of the sector. The first two factors have proved to be real limiting constraints in Ukraine.

The legal and institutional framework required to sustain a healthy SME sector is largely inadequate and its implementation another cause of concern (for instance, fiscal harassment is a frequently observed practice in Ukraine).

Regarding the access to finance, the only action that a SMEDA can take to help a client obtain credit is to assist in the preparation of a business plan for submission to a bank for a loan. Generally there is an absence of local financial institutions able to support SMEs.

The TOR stipulated that the SMEDA created by the project should become financially self-sustaining, within the project horizon. This is unrealistic. There are no examples of commercially self-sustaining SMEDAs in Central Europe or NIS. Even in Western Europe such agencies have to be subsidised one way or another by grants, favourable tax allowances, etc.
At the moment ADE’s income covers about 60% of its costs, which should be regarded as a real, though insufficient, achievement. But it implies that, unless continuing financial support can be found, ADE in Kyiv cannot be self-sustaining.

This lack of financial sustainability means that the SME programme, in its present form, cannot achieve its intended institution building objective of creating lasting support structures and training links and promote confidence. The creation of a viable company offering consulting services to emerging enterprises is not out of reach, provided the conditions for the emergence of enterprises are met.
### 3.6 Main Conclusions and Evaluation of Tacis Intervention in SME Sector

**TABLE II 3-2: Main conclusions regarding evaluation of Tacis intervention in support to SMEs**

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCCs and SMEDAs</td>
<td>1. Was the reform to support well identified? Insufficiently identified? The Government had a clear objective to create a large private SME sector, but no views on the policies to do so in an unfavourable environment.</td>
<td>1. Were the expected outputs effectively delivered? The BCCs proved not to be a priority and are dormant. Support to the SMEDA led to an effective development and full realisation of the expected outputs. Services rendered to SMEs are rated as excellent by the final beneficiaries.</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc..)? Yes. The SMEDA (now ADE, merging SMEDA and BCC) has developed a real capacity to assist emerging entrepreneurs to set up their own business. Training of counsellors and starters had an impact. The real constraint comes from other conditions which hamper the emergence of SME businesses.</td>
<td>A very effective and visible programme which has achieved significant results and provided valuable training and professional know how to the beneficiary. However, the context in which the EC support programme to SMEs has been developed proved a very limiting factor. Consequences and implications of this have been insufficiently taken into account and there has not been a real analysis of what should be done, alone or with other donors, to eliminate the major bottlenecks to the development of SMEs.</td>
</tr>
<tr>
<td></td>
<td>2. EU Intervention strategy 2a. Was there a clear one? Tacis intervention strategy fairly well defined: to contribute to development of a market economy based on private market by promoting in parallel privatisation/restructuring, SMEs and financial sector development. This is perfectly appropriate. SME strategy followed a pattern tried on whole CIS involving the creation of BCCs and SMEDAs. Deeper analysis of Ukraine situation to adapt the pattern to local circumstances would have been necessary.</td>
<td>2b. Was it likely to stimulate &amp; support the reform? Support services for SMEs are necessary but not sufficient to guarantee development of SMEs.</td>
<td>2. Has there been an impact on the process of reform, such as: 2a. Change in ways of doing things, work attitudes, etc.? Changes in work attitudes, transfer of professional know how were very effective.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2c. Had EU intervention the critical mass necessary to have an impact on the reform? EC assistance had the critical mass to start effectively a SMEDA, not to create conditions and stimulate effectively SME development.</td>
<td>Extensions were necessary. There is no way the SMEDA can become financially autonomous within the delays envisaged. 3. Has the PO or the beneficiary taken ownership of the output of the intervention? Yes, fully.</td>
<td></td>
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<td></td>
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</tbody>
</table>
### TABLE II 3-2 (Continued): Main conclusions regarding evaluation of Tacis intervention in support to SMEs

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2d. If not was EU intervention well co-ordinated with other donors?</td>
<td></td>
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<tr>
<td>Complementary donor assistance in the form of credit lines (EBRD), USAID supported SME task force in Ministry of Economy, establishment of regional networks of support centres. Co-ordination in the form of mutual information and joint effort in some areas, no real co-ordination of a SME promotion strategy.</td>
<td></td>
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<tr>
<td>3. Was the partner organisation well chosen?</td>
<td></td>
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<tr>
<td>Yes. Development of a specific agency was a sensible approach.</td>
<td></td>
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<tr>
<td>4. Were the ToRs still adapted to the actual situation at the starting time of the projects?</td>
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<tr>
<td>Not entirely. In particular assumptions that the conditions for development of SMEs would materialise were overoptimistic. Separate institutions for BCC and SMEDA proved counterproductive and this had to be corrected.</td>
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<td></td>
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<tr>
<td>4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side?</td>
<td></td>
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<td></td>
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<tr>
<td>This does not seem to have been a major issue in this area. A justified recourse to relevant facilities has permitted to strengthen some aspects of the programme.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2b. Change in decision process?</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2c. Acceleration of the reform process?</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>It is not evident that this project has changed the attitude of the Government towards SMEs and induced improvement of framework or environment (fiscal, e.g.).</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3. Has there been impact in terms of restructuring of the economy?</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>It is too early to assess.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Has there been a replication of a successful project?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The project itself is a replication of similar projects in other CIS countries. Development of a regional network is programmed under the 1997 AP.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>5. What is the chance of continuation after end of Tacis support?</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>This is a major issue. Partial sustainability can be expected but some form of subsidisation will remain necessary.</td>
<td></td>
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</tr>
</tbody>
</table>

Evaluation of EC Country Programme in Ukraine
3.7 **Main Recommendations on SMEs**

Support to the development of SMEs and assistance to emerging entrepreneurs and starters is beyond doubt a useful task and extremely valuable work has been realised so far. In order to take full benefit of past investment in the area we recommend to act at three levels:

- The overall economic and institutional context in which SMEs operate. There is a need to assess the main issues and constraints facing emerging SMEs in order to develop actions to reduce them or to avoid developing mechanisms of support in areas where they cannot lead to effective SME promotion. Such an analysis should be conducted with or shared with other donors and form the core of a co-ordinated strategy of intervention in the sector. Three particular points should receive specific attention:
  - the consequences of the lack of completion of economic reform; it may be counterproductive to develop SMEs in a context where their potential clients are not imposed financial discipline, or in circumstances where the potential clients are mainly state enterprises artificially maintained in existence; the danger is then that new SMEs develop around these structures and are used as a pretext to delay their liquidation;
  - the analysis of the regulatory and legal constraints to the development and viability of SMEs in order to identify complementary reforms and to improve sequencing of the overall support; it is, for example striking, that one of the objectives of the SMEDAs is to provide training to new entrepreneurs on how to do their accounting, but the reform of the enterprise accounting system was initiated only in the AP 1998. Reforms regarding the assessment of the taxation basis of enterprises, the correct identification of their assets, the regulation on collateral, bankruptcy, etc. are essential to permit private sector sound operations and to ease relations with banks and potential investors;
  - the geographical distribution of the effort. It is not sure that at present support for the development of SMEs is needed in all regions of Ukraine; the success of SMEDA is clear in Kyiv, so far not elsewhere. The reason may be that only in Kyiv there is a real development of SMEs for the moment, while in other areas either the development of local markets or the absence of real restructuring of the existing enterprise sector prevents the emergence of SMEs.

- The development of more comprehensive instruments to support SMEs. We recommend that the EC further deepens its present thinking on the development of instruments offering a better articulation between the assistance leading to financial decisions and the financing instruments themselves.

- The Agency of Development of Enterprises itself. The effort to increase the financial sustainability of the ADE should continue. However, comparison with what is done in EC countries indicate that all such agencies are benefitting from some form of subsidisation. The issue should be addressed and a clear strategy adopted: either a short term solvability of the Agency is required and then it should transform itself into a consulting enterprise without any constraint on the type of service, nor on the type of client it serves, nor on the level of the tariffs in applies; or a partially subsidised support service to SMEs. In the latter case a phasing out strategy should be agreed with the Government on which charges should be taken over by the budget and which services they should remunerate.

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33 See Part II, section 9.3 on the JVP facility.
SMEs (Small & Medium sized enterprises)
4. **Support to the Financial Sector**

4.1 **Policy to Support**

The legal framework for the establishment of a banking system in independent Ukraine was set up by the Law on Banks and Banking Activity of March 20, 1991 which led to the creation of a two-tier banking system made of a central bank, the National Bank of Ukraine, and of commercial banks. While there was only five state banks until 1989, more than 200 private commercial banks were created in the subsequent years.

But the banking sector remains under-developed and urgently needs rationalisation and consolidation.

Lack of confidence, after inflation and the collapse of financial intermediaries gobbled up most of household savings in the years 1991-1993, and a permanent fear of control on gained resources are limiting the volume of deposits. By mid-1997 cash money in circulation overcame bank deposits by nearly 50 percent. About two thirds of the banks are single branch banks which operate only in the oblast where they are registered. Many of them are pocket banks of industrial conglomerates.

Hyper-inflation which prevailed when commercial banks were established did not favour a sound management nor the design of medium term development policies. Centralised treasury management and the distinction between front office and back office are unknown to many Ukrainian banks which, in spite of their small size, pretend to cover the whole range of banking services. Accounting practices inherited from the Soviet banking system prevent an effective bank supervision.

Because of a limited volume of deposits, of a poor financial situation of many enterprises and of a large amount of non-performing loans in their portfolio banks restrict their credit activity to the provision of short term loans. This situation is still aggravated by a crowding-out of the financial market by financing needs of the State budget.

Conditions for the development of a sound financial systems begun to build up once Bretton Woods Institutions, notably the IMF, started their co-operation with Ukraine in 1993/94. Because of the crucial role of monetary policy and hence of the financial sector in the macroeconomic stabilisation process the IMF, building upon its experience and its financial leverage, insisted on the Ukrainian authorities to design with its assistance a clear and consistent banking policy. This one was further developed with contributions from the World Bank in the framework of the preparation of a Financial Sector Adjustment Loan (FSAL).

Conditionalities to the FSAL include:

- A new Law on the National Bank of Ukraine ensuring its independence from the Government and stating that monetary stability is the Bank’s main objective;
- A new Law on Banks and Banking Activity; this law should include detailed arrangement for all substantive interventions in banks, notably the definition of procedures and authority for conservatorship and liquidation of banks;
- The implementation of International Accounting Standards (IAS) by NBU and by commercial banks;
- A modification of the NBU regulation related to loan classification and provisioning procedures;
- A reorganisation and strengthening of the NBU Supervision department;
- improved off-sight and on-sight surveillance of banks;
- A strengthening of arrangements for licensing of new banks and re-licensing of existing banks;
- The establishment of an enforcement capacity and of procedures to address problem banks;
• The establishment of intervention mechanisms to prevent systemic spill-over from illiquidity problems in larger banks;
• The establishment of a system of deposit insurance.

In 1996 and 1997 the NBU took a number of significant steps towards the implementation of these measures.

All responsibilities for licensing decisions have been given to the Committee on Banking Supervision which started its operations in this area in reviewing during 1996 the licences of all registered banks. From January 1998 new requirements are set on the size of banks: full banking licence is restricted to banks with a minimum of ECU 1 million of funds capital. This threshold should be further increased in the coming years.

A Bank Resolution Unit was formed at the NBU with the specific task of identifying problem banks and working out enforcement agreements for their restructuring. As a first step the Resolution Unit produced a rating of the 30 largest banks of which two were identified for enforced agreements. In addition, the NBU drafted improved regulations for prudential reporting and loan classification which became effective by mid-1997. Banking supervision is however hampered by a weak capacity of the NBU to operate on-site inspections.

From 1998, commercial banks as well as the NBU will put their accounting systems in accordance with the International Accountancy Standards.

Apart from the EU, many foreign donors contributed to the reform of the financial sector. The International Monetary Fund and the World Bank provided assistance to NBU on the legal framework and banking supervision with additional contributions from the Dutch and German central banks. USAID funded a centre for training of banks’ staff; it assisted, as did Germany, in establishing the institutions required to develop financial markets, supported the development of a treasury bills market and provided technical assistance to banks for the implementation of IAS; it further supported the NBU supervision and economic departments. The British Know How Fund assisted NBU as well as commercial banks in the implementation of the accountancy reform. The EBRD awarded the NBU a ECU 100 million loan earmarked for distribution of medium term credits to small and medium enterprises through Ukrainian banks.

4.2 Overview of Tacis Intervention

Early Tacis activities in the financial sector, funded under the 1991 and 1992 Action Programmes, related to policy design and implementation. They included assistance to the Ministry of Finance in the design of laws on accounting and auditing, support to the same Ministry, to the Centre for Market Relations and Enterpreneurship and to the Kyiv Stock Exchange in the establishment and development of financial markets, assistance to the Association of Insurance and the Insurance Supervisory Committee in preparing the legal framework for the development of the insurance sector.

Tacis also assisted the State University of Economy in Kyiv in establishing two specialised training institutions, one for banks’ staff, the Ukraine Finance and Banking School, and the other one for personnel of insurance companies, the Ukrainian Insurance Training Centre. It must be noticed that the Tacis funded Banking School is competing with a similar institution supported by USAID. Attempts to merge the two institutions did not succeed so far.
At the bank level a major Tacis programme aimed at creating the conditions for an EBRD contribution to the financing of private enterprises. The first objective of the EBAS (European Banking Advisory Service) project, started with 6 banks in the 1992 Action Programme, was to improve the capability of commercial banks selected to be the recipient of an EBRD credit line to manage the distribution of medium-term credit to small and medium enterprises. Similar actions had already been undertaken by the EBRD under financing of the Bangkok facility. Banks which benefited from the project were selected by the EBRD. The scope of this project was extended far beyond its immediate objective towards an overall institutional strengthening of the selected banks through the provision of restructuring and staffing plans, training of personnel, manuals on banking procedures in the main areas of the banks’ activity, hardware and software for information management. This project was further extended up to the 1995 A.P.

From 1994 the design, with assistance of Bretton Woods institutions, of a consistent banking policy provided the framework within which the EU as well as other foreign donors were able to design their own interventions; it favoured the development by foreign donors of interventions complementing one another.

Tacis provided advance training to the personnel of NBU in the main techniques and practices of modern central banking. Trainers were practitioners from Western European central banks, so that the programme contributed in creating co-operative links between NBU and its counterparts in the European Union. The whole programme, which also included contributions funded under bilateral agreements, was co-ordinated by the IMF through a permanent expatriate adviser.

The on-going accountancy reform, which is conditional to the release of the World Bank FSAL, is another example of co-operation between various donors in the implementation of the banking policy. Overall co-ordination of the operation at the NBU level is provided by the EC which co-operates at that level with the IMF. A Know How Fund adviser is also present to support the NBU on reporting issues. Technical assistance to commercial banks is supplied by the EU and USAID. Training has been implemented in autumn 1997 with EU/USAID and Know How Fund co-ordinated programmes sharing the totality of banks and co-ordinating the content of their training programme through the NBU.

Tacis contributed through the drafting of a manual on bank liquidation to the strengthening of the NBU capability to exert banks supervision.

Further assistance from Tacis is being considered along the policy lines drawn by the FSAL conditionalities, notably in the area of bank supervision and in the management of crisis situations in commercial banks.

Action programmes and accordingly the following table do not provide a comprehensive view of Tacis interventions in the sector many of which were financed through facilities.
### Table II-4.1: Tacis main interventions in the financial sector

<table>
<thead>
<tr>
<th>Sector and type of intervention</th>
<th>AP year</th>
<th>Number of projects</th>
<th>Amount (MECU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy advice</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Study of the financing needs of the banking sector</td>
<td>1991</td>
<td>1</td>
<td>0.666</td>
</tr>
<tr>
<td>Assistance for legislation on accounting and auditing</td>
<td>1991</td>
<td>1</td>
<td>0.320</td>
</tr>
<tr>
<td>Assistance to drafting insurance legislation</td>
<td>1992</td>
<td>1</td>
<td>0.216</td>
</tr>
<tr>
<td>Institutional building</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training in accounting and auditing</td>
<td>1991</td>
<td>1</td>
<td>0.991</td>
</tr>
<tr>
<td>Ukrainian Finance and Banking School</td>
<td>1992</td>
<td>1</td>
<td>1.749</td>
</tr>
<tr>
<td>Insurance Training Centre</td>
<td>1992</td>
<td>1</td>
<td>0.850</td>
</tr>
<tr>
<td>Support to the development of financial markets</td>
<td>1996</td>
<td>1</td>
<td>1.500</td>
</tr>
<tr>
<td>Support to the implementation of IAS</td>
<td>1996</td>
<td>1</td>
<td>2.000</td>
</tr>
<tr>
<td>Support to the implementation of IAS</td>
<td>1997</td>
<td>1</td>
<td>1.500</td>
</tr>
<tr>
<td>Support to the development of the financial communication</td>
<td>1997</td>
<td>1</td>
<td>2.000</td>
</tr>
<tr>
<td>Sector restructuring</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructuring of Bank Ukraina</td>
<td>1991</td>
<td>1</td>
<td>0.247</td>
</tr>
<tr>
<td>Establishment of a bank support unit (later renamed EBAS)</td>
<td>1992</td>
<td>6</td>
<td>2.186</td>
</tr>
<tr>
<td>Training programme for the NBU</td>
<td>1993</td>
<td>1</td>
<td>0.950</td>
</tr>
<tr>
<td>Oshadny Bank training programme</td>
<td>1993</td>
<td>1</td>
<td>0.944</td>
</tr>
<tr>
<td>Restructuring of Bank Ukraina</td>
<td>1993</td>
<td>1</td>
<td>0.660</td>
</tr>
<tr>
<td>Ukrainian Bank for Reconstruction and Development</td>
<td>1993</td>
<td>1</td>
<td>0.270</td>
</tr>
<tr>
<td>European Banking Advisory Service (EBAS)</td>
<td>1995</td>
<td>4</td>
<td>2.500</td>
</tr>
<tr>
<td>Support to micro lending operations</td>
<td>1996</td>
<td>1</td>
<td>2.000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>20.694</strong></td>
</tr>
</tbody>
</table>

### 4.3 Relevance and Appropriateness

Tacis projects in the financial sector come under two headings:

- ‘stand alone’ projects of which the Finance and Banking School is an illustration;
- projects developed to complement actions undertaken by other players.

This second category of projects was initiated with the first EBAS project in 1992. Since the NBU is designing and implementing a consistent banking policy Tacis interventions concentrate on the support to this policy. As a consequence NBU has become the main partner organisation of Tacis in this sector.

While combining institutional support to the banking sector and assistance to individual banks, future Tacis interventions should differ from previous ones through two features: the number of individual banks targeted for action will be streamlined; the selection of these banks will be conducted through, or at least in close connection with the NBU. This change, which reflects a move of Tacis interventions towards the handling of more strategic issues, is meeting a demand of the NBU.

As mentioned at other places in this report, the respective contributions of various players in the identification and design of Tacis programmes and projects vary from one sector to another. As far as the financial sector is concerned, the EC delegation in Kyiv had a major contribution in this regards. This may be due to the qualification and personality of the persons in charge. It is also likely related to the close co-operation which was established in Kyiv with the NBU and IFIs.
The length of the normal Tacis procedures, which implies a minimum 18 months delay between the identification of a project and the starting date of its implementation, is creating obstacles when it comes to contribute to actions initiated by other partners. This problem has been at least partly circumvented through the combination of various instruments. EBAS projects, which were to some extent extend a continuation of operations financed under the Bangkok facility, were themselves completed in some cases using the Bistro facility. Bistro might also be used to finance a case study on bank liquidation. The assistance to commercial banks in implementing IAS accounting standards is financed as a Tacis project, but the co-ordination of this action at the NBU level resorts to an EES. Another EES was used to advise on the law on the NBU. UEPLAC, also financed through an EES, was invited to contribute to the preparation of the new law on commercial banks.

4.4 Effectiveness and Efficiency

Most Tacis projects in the financial sector may be assessed positively as regards the efficiency with which resources were used. Tacis managers as well as contractors and beneficiaries demonstrated much flexibility in the management and implementation of these projects.

Terms of reference of the EBAS projects, designed before individual banks were selected, proposed a rather ready-made definition of the activities to be carried out. As a result of the diagnostic conducted during the inception phase and of the requirements of the beneficiaries, adjustments have had to be made to these ToR and accordingly to the inputs supplied by the contractors. The implementation of these changes did not raise any difficulty neither from Tacis managers nor from contractors.

The quality of the services supplied by contractors in charge of implementing projects in the financial sector, notably their willingness to meet the beneficiaries’ requirements, is unanimously praised by beneficiaries.

EBAS projects however faced some difficulties in their earlier stages because of a low level of involvement of beneficiaries. Some of the banks which benefited from this project were mainly interested in having access to the EBRD credit line. They were neither aware of their need for technical assistance nor ready to devote as much time of their staff as was necessary. Furthermore they were informed at very short notice that they had been selected as a recipient of the Tacis project. Nevertheless, if the level of commitment of the banks’ management remained uneven from one bank to another, in all cases consultants succeeded in making the banks’ managers aware of the weaknesses of their institutions and in gaining their co-operation.

It may also be noted that, whereas co-operation with the IMF in the design and implementation of a banking policy proved efficient and satisfactory to both partners, Tacis managers were less satisfied when they resorted to the IMF as a contractor for the implementation of the training programme of NBU staff.

As regards the effectiveness of Tacis projects in the financial sector, it must be underlined that such projects as the establishment of training institutions or the provision of technical assistance to commercial banks can only contribute to the development of a sound and efficient banking sector as far as they are backed by the implementation of a clear and consistent banking policy. The EBAS assistance, although efficiently implemented, did not prevent one of the beneficiary banks to go bankrupt nor an other one to take such risks in its credit activity that it was withdrawn from the list of banks selected for the distribution of the EBRD credit line.
4.5 IMPACT AND SUSTAINABILITY

In spite of some duplication of efforts with USAID, the structures established with Tacis support for the training of banks’ and insurance companies’ staff are a valuable and durable contribution to the strengthening of the financial sector in Ukraine. The prospects for sustainability of these structures are favourable provided they continue their efforts to build their relations with banks and insurance companies on a ‘partnership’ basis and to attract practitioners to act as trainers in their programmes.

The EBAS project has had a large impact on all banks which benefited of it. Most recommendations made by the consultants were actually implemented. Such highly needed structures and activities as internal audit, centralised treasury management, formal credit risk assessment, personnel training and management, branch reporting and supervision were created in banks where they did not exist so far or were organised in a rather primitive manner. Credit departments were strengthened and effectively contributed to the utilisation of the EBRD credit line. Beyond these immediate achievements banks, which had developed up to that point in a somewhat hectic climate, were made aware that they needed to design and implement a medium term development strategy.

But here again the full impact of such projects can only be achieved as far as they are instrumental to the implementation of a clear and consistently designed banking policy.

In the area of policy advice Tacis, before joining its efforts to those of the Bretton Woods institutions, acted as a forerunner in the drafting of the legislation relative to the financial sector as well as in the implementation of the financial policy. It established with the NBU and with other representative bodies of the financial sector strong links which contributed to make it a significant actor in the shaping and implementation of the reform process and to enhance the impact of its interventions. Developments in the financial sector over the last years clearly illustrate that the largest impact is achieved when foreign donors co-operate between themselves and with the recipient government in the design and implementation of a clearly defined and commonly accepted strategy.
4.6 **MAIN CONCLUSIONS AND EVALUATION OF TACIS INTERVENTION IN THE FINANCIAL SECTOR.**

**Table II-4.2: Main conclusions regarding the evaluation of Tacis interventions in the financial sector**

<table>
<thead>
<tr>
<th>Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to the financial sector (Since a high level of consistency has been achieved between the various Tacis interventions in the financial sector it did not seem useful to make distinct comments for the three categories of interventions distinguished in table II-4.1 above).</td>
<td>1. Was the reform to support well identified? Insufficiently identified? From 1993/94 the Ukrainian government and the NBU developed with the assistance of IFIs a clear and comprehensive strategy for the restructuring, consolidation and development of the sector. 2. EU Intervention strategy 2a. Was there a clear one? From the beginning Tacis interventions focused on the design and implementation of a sound legislative framework and on the strengthening of financial institutions through direct and indirect actions. 2b. Was it likely to stimulate &amp; support the reform? Tacis projects were appropriate to the needs of the actors and to the development of the reform process 2c. Had EU intervention the critical mass necessary to have an impact on the reform? In spite of the limited size of its interventions Tacis was able to establish itself as significant actor of the reform process</td>
<td>1. Were the expected outputs effectively delivered? Monitoring reports as well as Ukrainian partners indicate that expected outputs have been delivered. 2. Did the intervention meet its targets in terms of timeliness and delays? Yes. 3. Has the PO or the beneficiary taken ownership of the output of the intervention? Yes. Even those banks which were initially the less interested in the TA component of the EBAS project eventually implemented most recommendations made by the consultants. 4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? Beneficiaries, Tacis managers and contractors demonstrated much flexibility.</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc..)? Training programmes, the establishment of training institutions and the EBAS project resulted in a significant transfer of know-how. 2. Has there been an impact on the process of reform, such as: 2a. Change in ways of doing things, work attitudes, etc.? 2b. Change in decision process? The EBAS project deeply modified the organisation structure and management practices of the banks which benefited of it. 2c. Acceleration of the reform process? Tacis contributions to the design and implementation of a financial policy as well as its contributions to the strengthening of financial institutions have had a positive impact on the reform process.</td>
<td>Tacis interventions in the financial sector may be positively assessed. Many factors contributed to this achievement: (i) the strong links which Tacis representative have been able to establish with key actors in the sector (ii) the existence of a clear strategy designed under the leadership of the Bretton Woods institutions and accepted by all actors (iii) a close co-operation between all donors in the implementation of this strategy (iv) a high level of consistency between actions at the policy level and actions focused on enterprises restructuring and strengthening (v) the utilisation in a complementing manner of the whole range of EU instruments from large projects to small facilities.</td>
</tr>
</tbody>
</table>
**TABLE II-4.2 (Continued): Main conclusions regarding the evaluation of Tacis interventions in the financial sector**

<table>
<thead>
<tr>
<th>Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2d. If not was EU intervention well co-ordinated with other donors?</td>
<td></td>
<td></td>
<td>3. Has there been impact in terms of restructuring of the economy?</td>
<td>Yes. Since a sound financial system is a major requisite to the restructuring of the economy, the impact of Tacis interventions in the financial sector extends far over this specific sector.</td>
</tr>
<tr>
<td>With one exception (Banking school) a very close co-operation between donors has been achieved.</td>
<td></td>
<td></td>
<td>4. Has there been a replication of a successful project?</td>
<td>The EBAS project has been extended. Contributions to the design and implementation of a financial policy have a far reaching influence.</td>
</tr>
<tr>
<td>3. Was the partner organisation well chosen? Tacis closely co-operates with all strategic actors in the sector</td>
<td></td>
<td></td>
<td>5. What is the chance of continuation after end of Tacis support?</td>
<td>What has been achieved is due to be durable.</td>
</tr>
<tr>
<td>4. Were the ToRs still adapted to the actual situation at the starting time of the projects? The close relation established with strategic actors in the sector favoured the design of projects meeting the most urgent needs and appropriate to the situation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.7 **Main recommendations regarding Tacis intervention in the financial sector**

There is no specific recommendation to make in this area which may be considered as one success story of Tacis in Ukraine. But lessons may be learnt from the factors which permitted this achievement:

- Tacis representatives have been able to establish close links with strategic actors in the sector, notably the National Bank of Ukraine but also such institutions as the Ministry of Finance, the Parliament or the Stock Exchange. This permitted the identification of projects precisely focused on the most urgent requirements of the reform process and adjusted to a fast developing institutional environment;

- Since 1993/94 the impact of donors interventions in the financial sector was enhanced by the definition of a clear strategy for the restructuring, strengthening and development of the financial sector. Building on their know how and on their leverage the Bretton Woods institutions played a leading role in the design of this strategy and in obtaining the commitment of the Ukrainian government to implement it consistently;

- The existence of a commonly agreed strategy permitted a close co-operation between donors, each of them contributing with its own specific instruments and capabilities;

- The existence of this strategy also permitted to reach a high level of consistency between Tacis interventions at the central policy level and at the enterprises level;

- Finally the positive results achieved by Tacis in the financial sector may be related to a creative utilisation of the whole range of EC instruments. Large projects allowing for relatively massive actions but whose implementation requires some delays were complemented by facilities whose volume is much more limited but which may be implemented at short notice or to meet very specific needs.
Support to the financial sector

Evaluation of EC Country Programme in Ukraine
5. **Agriculture**

5.1 **Reform to Support**

The main problems faced in the agro-food sector by Tacis as well as by other donors originate in the lack of any clear policy on the Ukrainian government’s side as regards the transition of this sector from the former command economy towards a market economy.

Until 1994 the Ukrainian Government did not take any significant measure to change the organisation and management of the sector. Things started to move after Mr Kuchma was elected President. However most initiatives from the Government faced and are still facing a strong opposition from vested interests well represented in the Parliament as well as in local administrations. All observers agree that the latter continue to play a very significant role in the management of the sector. This results in an unclear legal situation which reflects in strongly differentiated developments from one region to another in relation with the willingness or reluctance of local administrations to favour the dismantling of former structures.

Former kolkhoz and sovkhoz have been corporatised under various status. But this first step leaves a lot of unsolved problems be it the management of these production units, their further development into large farms relying on hired labour or their splitting up into small peasant farms, the liberalisation of trade with agricultural products, the relations of farms with their suppliers and clients.

In principle members of collective farms have a right to claim a piece of land to establish their own private farm. But if doing so they have to confront the hostility of most other members of the collective, the difficulty to obtain inputs and equipment in the absence of private suppliers, the problem of getting access to the market for their products, not to mention the impossibility to receive any credit. Furthermore, because of the division of labour within the former kolkhoz and sovkhoz, most members of collective farms have a narrowly specialised qualification which does not prepare them to manage a farm. In fact the process of establishing peasant farms from the existing collective farms, a process which actually already started under the Gorbatchev government in what still was the Soviet Union, has nearly come to a stand-still. There is nevertheless a few examples of agricultural entrepreneurs who have succeeded in creating over a few years large estates of hundreds of hectares through the lease of numerous plots belonging to unsuccessful private farmers. The recent release of a presidential decree on land lease might introduce some flexibility in the use of agricultural land and circumvent to some extent the deadlock between Government and Parliament on the adoption of a land code.

In spite of three vetoes from the President, the Parliament eventually succeeded in passing a law which removes a large number of agro-processing enterprises from the mass privatisation process. This law ‘on the peculiarities of the privatisation of agro-industrial enterprises’, adopted in July 1996, states that farm workers should be secured a majority share in the capital of the enterprises which process their products. This might be heavily detrimental to the development of agro-processing enterprises since farms, whose financial situation is very difficult, will not be able to invest in the modernisation of processing units and might be tempted to use their voting power to increase the price to which they sell raw agricultural products to these processing units. But on the other side the adoption in 1997 of a law on co-operatives might favour the development of new structures upstream and downstream of farm production.

Prices for agricultural products have been liberalised, a decision which actually led to a sharp deterioration of the terms of trade of agricultural products versus industrial inputs. But grain trade, which is by far the most important one, remains under state monopoly and state orders still make a large
part of the deliveries of agricultural products. The state monopoly on trade with cereals should however be removed in 1998 provided the privatisation of storage facilities does not run into some new obstacle.

The slowness of the reform process in the agricultural sector is still reinforced by the reluctance to change of an ageing rural population as well as by deeply rooted historical traditions which tend to consider land as a collective asset of villagers.

Foreign donors themselves do not have convergent views as regards the policy to be implemented in the sector. Some of them, notably USAID, focus on creating the legal and institutional framework which would allow market mechanisms to promote structural changes. They generally consider that Ukrainian agriculture has to experience a structure of small peasant farms before moving, under the influence of competition and of retirement of ageing farmers, towards larger and more efficient production structures. Others, among which the European Union, support pilot projects aiming at reshaping existing structures and at improving their efficiency and their capability to adjust to market developments.

5.2 OVERVIEW OF TACIS INTERVENTION

In the early years of Tacis the agro-food sector was considered a priority area. But the rather disappointing results of most projects, notably their inability to find out ways to promote the restructuring of the sector and to circumvent the obstacles created by an unfavourable political, legal and institutional environment, led to a removal of this sector from Tacis priorities from 1995. In the 1996-1999 Indicative Programme the EC frankly acknowledged that the ambiguous situation of the reform process in this sector 'prevents the EU from seeing clearly where and how to provide assistance efficiently through the Tacis programme ...'

Although most projects in the agro-food sector were multifaceted one can differentiate four broad areas of intervention.

A few Tacis projects mainly consisted in the provision of technical assistance in the area of production techniques (sunflower production, grain storage, foodstuff transportation, ...).

However, most projects in the earlier years were directly tackling the transition process at the enterprise level. They focused on the restructuring of enterprises of the agro-food sector, whether farms, processing units or distribution units, and on the restructuring of the relations between these various elements of the production-processing-distribution chain of agricultural products. These projects were intended to be pilot projects providing models to be replicated in various locations.

These restructuring projects included the establishment of structures, such as advice centres, meant to support reform-minded initiatives. Considering that Tacis projects had been more successful in this area of institutional building than in its efforts to cope with the internal restructuring of agro-food enterprises, Tacis launched in the recent years some projects specifically focused on the creation of such reform supportive institutions (Agricultural unions, Trade boards, Agro-Business centres, Advice centres, ...).
Agriculture

Evaluation of EC Country Programme in Ukraine

A last area of intervention of Tacis in the agro-food sector is assistance to policy formulation. Apart from a few studies on agro-processing industries in 1991 and 1992, it really started in 1993 with a very large project of assistance to the policy making institutions at the central level followed in 1995 by an assistance to the establishment of a land registration system.

Table II-5.1: Tacis main interventions in the agro-food sector

<table>
<thead>
<tr>
<th>Sector and type of intervention</th>
<th>AP year</th>
<th>Number of projects</th>
<th>Amount (MECU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TA to production</td>
<td></td>
<td>4</td>
<td>6.280</td>
</tr>
<tr>
<td>Efficiency improvement of foodstuff transport</td>
<td>1992</td>
<td>1</td>
<td>1.902</td>
</tr>
<tr>
<td>Reduction of losses in the agro-food chain in five regions</td>
<td>1992</td>
<td>1</td>
<td>1.400</td>
</tr>
<tr>
<td>Farm support service for sunflower</td>
<td>1993</td>
<td>1</td>
<td>1.943</td>
</tr>
<tr>
<td>Grain storage improvement</td>
<td>1993</td>
<td>1</td>
<td>1.035</td>
</tr>
<tr>
<td>Restructuring at the enterprise level</td>
<td></td>
<td>11</td>
<td>21.842</td>
</tr>
<tr>
<td>TA in meat, milk, fruit and vegetables, animal feed - Kyiv</td>
<td>1991</td>
<td>1</td>
<td>2.487</td>
</tr>
<tr>
<td>TA in meat, milk, fruit and vegetables, animal feed - Odessa</td>
<td>1991</td>
<td>1</td>
<td>1.066</td>
</tr>
<tr>
<td>Study for the privatisation of sovkhozes - Odessa</td>
<td>1991</td>
<td>1</td>
<td>0.611</td>
</tr>
<tr>
<td>Improvement of food wholesale and distribution - Alexandria</td>
<td>1991</td>
<td>1</td>
<td>0.647</td>
</tr>
<tr>
<td>Study for the privatisation of sovkhozes - Kirovograd</td>
<td>1991</td>
<td>1</td>
<td>0.535</td>
</tr>
<tr>
<td>Privatisation of food wholesale and distribution - Kamenka and Lugansk</td>
<td>1992</td>
<td>1</td>
<td>3.148</td>
</tr>
<tr>
<td>Pilot agro-industrial food chain - Lviv</td>
<td>1992</td>
<td>1</td>
<td>3.203</td>
</tr>
<tr>
<td>Assistance for processing of vegetables and meat - B. Tserkov</td>
<td>1993</td>
<td>1</td>
<td>1.665</td>
</tr>
<tr>
<td>Privatisation of wholesale structures - Donetsk and Dniepropetrovsk</td>
<td>1994</td>
<td>1</td>
<td>4.797</td>
</tr>
<tr>
<td>Pilot project in agriculture restructuring in three oblasts</td>
<td>1998</td>
<td>1</td>
<td>1.500</td>
</tr>
<tr>
<td>Support to agricultural enterprise reform in Djankoy district</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional building</td>
<td></td>
<td>3</td>
<td>4.999</td>
</tr>
<tr>
<td>Assistance to marketing and trade structures</td>
<td>1995</td>
<td>1</td>
<td>1.699</td>
</tr>
<tr>
<td>Agro-industrial post privatisation and extension services - Lviv</td>
<td>1996</td>
<td>1</td>
<td>1.800</td>
</tr>
<tr>
<td>Assistance to the development of agricultural co-operatives and associations</td>
<td>1997</td>
<td>1</td>
<td>1.500</td>
</tr>
<tr>
<td>Policy advice</td>
<td></td>
<td>5</td>
<td>8.457</td>
</tr>
<tr>
<td>Study on the modernisation of baby food processing</td>
<td>1991</td>
<td>1</td>
<td>0.248</td>
</tr>
<tr>
<td>Masterplan for the food packaging industry</td>
<td>1992</td>
<td>1</td>
<td>0.387</td>
</tr>
<tr>
<td>Study on alternative bio-diesel sources</td>
<td>1992</td>
<td>1</td>
<td>0.297</td>
</tr>
<tr>
<td>Policy formulation advisory and support service</td>
<td>1993</td>
<td>1</td>
<td>5.400</td>
</tr>
<tr>
<td>Development of land registration</td>
<td>1995</td>
<td>1</td>
<td>2.125</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>22</td>
<td>41.578</td>
</tr>
</tbody>
</table>

5.3 RELEVANCE AND APPROPRIATENESS

A main factor explaining the relatively large involvement of Tacis in the agro-food sector until 1995 is the high potential of the Ukrainian agriculture. Terms of reference of the projects generally underline the very positive contribution which agriculture could bring to the Ukrainian economy if the steep decline of agricultural production would be reversed. The Co-ordination Unit too stresses the importance of agriculture in the Ukrainian economy. But the CU, reflecting the views of the Ukrainian authorities, was not able to suggest practical ways of addressing the transition process in the sector. Therefore the main responsibility in the identification and design of projects relied on the Tacis task managers and their advisers.

Technical assistance to production was favoured by the Co-ordination Unit and well received by the beneficiaries. The projects of which it was the main focus often achieved positive results. But one may well consider that such purely technical projects which do not support any specific reform policy are
not in line with Tacis overall objective of making the best use of its limited resources to contribute to the transition to a market economy.

While preparing projects dealing with the restructuring of agro-food enterprises, projects designers were well aware of the many obstacles which hampered (and are still hampering) the reform process in this sector. Terms of reference generally provide a realistic description of these obstacles notably the absence of any clear structural policy and the reluctance to change of many actors. Project designers however tended to consider, especially after President Kuchma came to power, (i) that this situation would improve in the short run and (ii) that lessons learnt from successful pilot projects would bring a much needed support to the design and implementation of a reform-oriented agricultural policy. These assumptions were not confirmed.

Confronted with these difficulties Tacis attempted to tackle the restructuring of the sector through complementing actions at the policy level and at the enterprises level, thus alleviating the difficulties which earlier restructuring projects had been facing because of an inadequate policy environment while providing policy makers with references from the practice. A strong linkage should have been established between the 1993 very large project of assistance to policy making at the central level and a large restructuring project launched one year later in three different locations. Actually, in spite of a few joint activities, the complementarity between both projects did not materialise. Furthermore because the policy advice project was badly designed and relied on the assumption, which proved to be incorrect, that the conditions existed for the formulation of a reform policy provided the Ukrainian government is supplied with some policy analysis capacity, this very large project failed to deliver any significant output.

Tacis interventions in the agro-food sector clearly illustrate the difficulties encountered by a demand-driven or dialogue-driven programme when the partner Government has not been able to formulate and implement a policy of its own.

5.4 **Effectiveness and Efficiency**

Terms of reference of most projects aiming at a restructuring of enterprises in the agro-food sector stated broad objectives, detailed which activities should be undertaken by the contractor and specified, often with much detail, the nature and volume of inputs to be supplied. However if partner organisations of the project are at that stage identified, this is not the case as regards the farms and processing and distribution units which are the final beneficiaries of the projects, whereas partner organisations generally are local administrations.

Therefore, as far as the concrete content of a project depends on the needs of its beneficiaries and on their willingness to co-operate, the contractor has to match predetermined activities and inputs with the requirements and expectations of the beneficiaries under constraint of sticking to the project objective. This often proved to be a lengthy and difficult process. In the project dealing with agricultural restructuring in three oblasts restructuring actions identified during the inception phase have had to be abandoned after some time whereas new actions were undertaken at much later stages of the project life.

In such situations the Monitoring Team plays a crucial role. As far as it is a neutral and qualified observer collecting information and opinions from all parties involved, it is the only institution able to provide the task manager, on who relies the decision, with the processed information he needs to take a well-founded decision as regards the modification of the project ToR.
The outcome of most Tacis projects targeted on the restructuring of the agro-food sector, as acknowledged by the EC, was disappointing. Contractors have generally demonstrated a high level of commitment to the projects' objective, a high degree of flexibility and the capability to establish good relations with partner organisations and project beneficiaries. Partner organisations, with a few exceptions, notably at the Ministry of Agriculture level, have been co-operative although many of them were initially expecting financial or material inputs to be supplied through the projects. Inputs have been delivered as foreseen in the ToR. In spite of this most projects failed to achieve their objective. In some cases results were even contrary to what was targeted when, for example, members of collective farms made anxious by the perspective of structural changes dismissed their reform-oriented managers to replace them by more conservative ones.

Tacis interventions in the area of institutional building, either within the framework of restructuring projects or through projects specifically focused on the development of structures supportive of the reform process, were more successful. However the development of these interventions was frequently handicapped by ToR which did not assess accurately enough the prevailing situation and/or involved partner organisations which were not genuinely committed to reform as well as by obstacles created by an unfavourable institutional environment.

The large agricultural policy advise project suffered from a very complicated organisational structure aggravated by serious management weaknesses from the contractor and by institutional instability on the side of the main partner. But the main factor explaining its failure to achieve any significant result is not there. It relies on the fact that agricultural policy issues in Ukraine are in a deadlock whereas the European Union, provided it would have a policy to promote in this area, has not the leverage to push it forward. The more recently started project of assistance to land registration is also facing difficulties for the same reasons: whereas its main objective is to assist in the design of a policy dealing with land tenure and transactions, the partner organisation tends to restrict it to the establishment of a cadaster.

An overall lesson which may be learned from Tacis attempts to intervene in the agro-food sector, either at the enterprise level or at the policy level, is that well implemented and well managed projects (which actually was not always the case) cannot achieve their objective and in some cases even fail to deliver expected outputs if the institutional environment is not recipient.

### 5.5 Impact and Sustainability

We strongly underlined above that political and institutional conditions for the development of a reform process in the agro-food sector did not exist in Ukraine. Therefore one could not expect restructuring actions supported by Tacis in some locations to be easily replicated elsewhere.

The only case where such a preoccupation was considered to a very limited extent is the project of agricultural restructuring in three oblasts which foresaw the establishment of a ‘National Dissemination Unit’. This component was, however, abandoned at an early stage of implementation.

In these conditions the impact of restructuring projects is restricted to the location where they are implemented. The sustainability of their achievements is furthermore questionable. The restructuring project in three oblast launched in 1994 should have built on the results of earlier projects in the same locations. But consultants indicate in the inception report that they were not able to find any significant track of these earlier projects except in one location where a previous project was still in progress.\(^{34}\)

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\(^{34}\) This is the more surprising that these consultants were in fact the main contractors of a previous project.
A greater impact may be expected from Tacis interventions in the area of institutional building. Advice Centres and Agro-Food Business Centres established under Tacis projects concentrate on local experts experience gained while working with European experts. Similarly Trade Boards might durably benefit of practices implemented with European expertise. Agricultural Unions organised with assistance of European experts may favour a democratic and hopefully more sensible approach by policy makers of the problems of the agricultural sector.

These structures however are meant to support the implementation of a reform policy in the agro-food sector. As long as such a policy does not exist their impact is due to be very limited. The grain sector is perfectly illustrative of this dilemma. A Tacis project contributed (against obstructive actions from the Ministry of Agriculture) to the establishment of an organisation representative of all private actors involved in the grain business. The capability of this organisation to contribute to the reshaping of the sector will however be severely hampered as long as there remains a State monopoly on grain wholesale trade.

Moreover these structures are very fragile. Advice Centres can hardly expect to cover their costs through the billing of the services which they supply to farms and processing units. Their sustainability is highly questionable unless they receive further support from Tacis or other donors. The outlook is somewhat better for Agro-Business Centres, which have been established within the administration. But this choice might be detrimental to their independence and to their image. Agricultural unions and trade boards might become self-sustainable provided they comply with their members requirements; but they will hardly be able to do so if the situation of blockade of the reform process persists.
### 5.6 Main Conclusions and Evaluation of Tacis Interventions in the Agro-food Sector

**Table II-5.2: Main conclusions regarding the evaluation of Tacis interventions in the agro-food sector**

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>TA to production</td>
<td>1. Was the reform to support well identified? Insufficiently identified? Projects not supportive of any reform of the agro-food sector 2. EU Intervention strategy 2a. Was there a clear one? Tacis intervention aimed at transferring modern technologies within the existing production structures 2b. Was it likely to stimulate &amp; support the reform? 2c. Had EU intervention the critical mass necessary to have an impact on the reform? 2d. If not was EU intervention well coordinated with other donors? Not relevant since these projects did not support any reform process 3. Was the partner organisation well chosen? Yes 4. Were the ToRs still adapted to the actual situation at the starting time of the projects? Yes</td>
<td>1. Were the expected outputs effectively delivered? Project achievements have been uneven. The best results were achieved in the area of agricultural production. Projects dealing with transportation or reduction of harvest losses were less successful 2. Did the intervention meet its targets in terms of timeliness and delays? Yes 3. Has the PO or the beneficiary taken ownership of the output of the intervention? Yes in most cases 4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? No</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know-how, etc..)? Beneficiaries benefited from a transfer of know-how. 2. Has there been an impact on the process of reform Projects did not aim at promoting or supporting structural reforms. However, beneficiaries experienced through these projects a co-operative approach to an improvement of their technical performance 3. Has there been impact in terms of restructuring of the economy? No 4. Has there been a replication of a successful project? No 5. What is the chance of continuation after end of Tacis support? Technical improvements as well as co-operative working practices introduced by the projects are due to be durable</td>
<td>As far as Tacis objective is to support the transition process such technical projects, although they are generally successful and in strong demand from potential beneficiaries, are irrelevant.</td>
</tr>
</tbody>
</table>
### TABLE II-5.2 (Continued): Main conclusions regarding the evaluation of Tacis interventions in the agro-food sector

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring of enterprises</td>
<td>1. Was the reform to support well identified? Insufficiently identified? There is no clear policy on the Ukrainian government’s side as regards the transition process in the agro-food sector</td>
<td>1. Were the expected outputs effectively delivered? In most cases outputs delivered lagged far behind what was expected</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc...)? What has been achieved through these projects is very specific to each farm, processing unit, location ... It is therefore doubtful that partner organisations and beneficiaries have acquired a know-how which they might use elsewhere for other restructuring process.</td>
<td>The disappointing results of these projects clearly illustrate that a reform process cannot be implemented at the enterprises level in the absence of a policy defining objective and guidelines and implementing the requested reform-friendly institutional environment.</td>
</tr>
<tr>
<td></td>
<td>2. EU Intervention strategy 2a. Was there a clear one? Although is has never been clearly stated, the EC strategy aims at a progressive change of the existing production structures towards a market-oriented behaviour rather than at a dismantling of these structures</td>
<td>2. Did the intervention meet its targets in terms of timeliness and delays? More than implementation delays an unfavourable institutional environment was the main constraint to the achievement of project objective</td>
<td>2. Has there been an impact on the process of reform? The main impact of these projects has been the establishment of co-operative relations between farms and between farms and processing units for technical or commercial purposes along a product line</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2b. Was it likely to stimulate &amp; support the reform? At the best Tacis projects might have provided some ‘in the field’ experiences for the formulation of a reform strategy of the sector</td>
<td>3. Has the PO or the beneficiary taken ownership of the output of the intervention? With the exception of a few reform-minded farm managers and local administrators, partners and beneficiary remained reluctant to change</td>
<td>3. Has there been impact in terms of restructuring of the economy? No significant impact on the reform process and on the restructuring of the sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2c. Had EU intervention the critical mass necessary to have an impact on the reform?</td>
<td>4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? No</td>
<td>4. Has there been a replication of a successful project? No replication of projects although they were intended to be pilot projects</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2d. If not was EU intervention well co-ordinated with other donors? Many donors intervene in this area with conflicting views, none of them having the capability to let its strategy prevail</td>
<td></td>
<td>5. What is the chance of continuation after end of Tacis support? Sustainability of achievements is not secured</td>
<td></td>
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<tr>
<td></td>
<td>3. Was the partner organisation well chosen? Partners organisations were the local administrations for agriculture whose commitment to change is very uneven from one region to another</td>
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<tr>
<td></td>
<td>4. Were the ToRs still adapted to the actual situation at the starting time of the projects? ToR were frequently over optimistic as regards the institutional environment. They furthermore settled very ambitious objective without clearly indicating how these objective could be met.</td>
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</tr>
</tbody>
</table>
### Table II.5.2 (Continued): Main conclusions regarding the evaluation of Tacis interventions in the agro-food sector

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional building</td>
<td>1. Was the reform to support well identified? Insufficiently identified? There is no clear policy of the Ukrainian government as regards the transition process in the agro-food sector.</td>
<td>1. Were the expected outputs effectively delivered? Because of inappropriate ToR and of weaknesses of the contractor, outputs of the project dealing with marketing and trade structures lagged behind expectations.</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc..)? Tacis projects contributed to the establishment of advice centres, trade organisations, farmers unions, etc., which did not exist previously.</td>
<td>Relying on reform-minded individuals, collective and local administrations, Tacis projects either dealing with the restructuring of enterprises or specifically focused on the establishment of such structures succeeded in creating structures which would support the implementation of a reform process in the agro-food sector. But as long as such a process has not started because of a blockade at the policy level, these structures are facing the same difficulties as Tacis enterprises restructuring projects: the absence of any precise guideline as regards the reform to support and an adverse institutional environment. Therefore their impact is very limited.</td>
</tr>
<tr>
<td></td>
<td>2a. Was there a clear one? EU strategy is to establish structures which would support any positive change in the sector</td>
<td>2. Did the intervention meet its targets in terms of timeliness and delays? An 18 to 24 months period proved too short to design new structures and to establish them on a sound basis. This is true for the project dealing with marketing and trade structures as well as for the structures established in the framework of projects focused on the restructuring of enterprises</td>
<td>2a. Change in ways of doing things, work attitudes, etc.? 2b. Change in decision process? Structures established with Tacis support contributed to disseminate reform-oriented approaches in the agro-food sector. But a change in the decision process would request institutional changes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2b. Was it likely to stimulate &amp; support the reform? These structures would support the reform process whenever it takes shape</td>
<td>2b. If not was EU intervention well co-ordinated with other donors? Similar structures are being implemented by other donors. Efforts are being made to coordinate donors initiatives as well as the activity of the structures they contribute to establish</td>
<td>2c. Has the PO or the beneficiary taken ownership of the output of the intervention? Structures developed within the framework of restructuring projects were established with local actors genuinely committed to reform. This was not always the case with the partner organisations involved in projects focused on institution building.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2c. Had EU intervention the critical mass necessary to have an impact on the reform? These structures would support the reform process whenever it takes shape</td>
<td>3. Has the PO or the beneficiary taken ownership of the output of the intervention? Structures developed within the framework of restructuring projects were established with local actors genuinely committed to reform. This was not always the case with the partner organisations involved in projects focused on institution building.</td>
<td>2c. Acceleration of the reform process? These structures would favour the reform process ... provided such a process is actually launched at the policy level.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2d. If not was EU intervention well co-ordinated with other donors? Similar structures are being implemented by other donors. Efforts are being made to coordinate donors initiatives as well as the activity of the structures they contribute to establish</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Was the partner organisation well chosen? Partner organisations were reform minded and co-operative.</td>
<td>4. Were the ToRs still adapted to the actual situation at the starting time of the projects? Because of a large delay between the draft of ToR and the starting date of the project, but also because of an insufficient knowledge of what was undertaken by other donors, it happened, notably in the case of the project dealing with trade structures, that the ToR</td>
<td></td>
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</tr>
</tbody>
</table>
have had to be thoroughly revised.
### Table II.5.2 (Continued): Main conclusions regarding the evaluation of Tacis interventions in the agro-food sector

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? The redesign of project activities when ToR happen to be inappropriate resulted in additional delays in the implementation of the projects.</td>
<td>3. Has there been impact in terms of restructuring of the economy? As long as the reform process is blocked the impact of Tacis sponsored structures on the restructuring of the economy remains very limited.</td>
<td>4. Has there been a replication of a successful project? There has not been any replication of projects but an attempt to establish co-operative links between similar structures all over the country. 5. What is the chance of continuation after end of Tacis support? Most structures established with Tacis support are not self-sustainable. They need further support from the government or from other donors.</td>
</tr>
</tbody>
</table>

**Policy advice**

1. Was the reform to support well identified? Insufficiently identified? The purpose of Tacis main project in this area was not to support a specific reform but to assist the Ukrainian government in formulating a reform policy for the agro-food sector.

2. EU Intervention strategy

2a. Was there a clear one? The EU strategy was to provide the Ukrainian government with an analysis capacity assuming that the lack of such a capacity was the constraining factor to the formulation of a reform policy.

1. Were the expected outputs effectively delivered? The project did not supply any significant output. This is partly due to co-ordination problems within the contracting consortium and to institutional instability in the main partner organisation. But it mainly originates in the shortcomings of the ToR and in the false assumption on which relied the whole project.

2. Did the intervention meet its targets in terms of timeliness and delays? The large Tacis project in this area fundamentally relied on the assumption that conditions were mature for the formulation of a reform policy of the agro-food sector provided a policy analysis capacity is supplied to the Ukrainian government. This assumption proved to be incorrect.

1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc.)? If the project had focused on institution building it might at least have contributed to establish an agricultural policy unit within the Ukrainian government. This choice was not made.
### Table II.5.2 (Continued): Main conclusions regarding the evaluation of Tacis interventions in the agro-food sector

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2b. Was it likely to stimulate &amp; support the reform?</td>
<td>This basic assumption proved to be incorrect. Furthermore the project did not clearly choose between direct policy advise and institutional building.</td>
<td>3. Has the PO or the beneficiary taken ownership of the output of the intervention? None of the partner organisations involved took ownership of the project. This resulted in consultants producing reports which did not meet any demand.</td>
<td>2. Has there been an impact on the process of reform, such as: 2a. Change in ways of doing things, work attitudes, etc.? 2b. Change in decision process? 2c. Acceleration of the reform process? 3. Has there been impact in terms of restructuring of the economy? No impact. 4. Has there been a replication of a successful project? Irrelevant. 5. What is the chance of continuation after end of Tacis support? A much more modest project of assistance to the formulation of an agricultural policy is presently developed in co-operation with other donors in the framework of an EES.</td>
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<tr>
<td>2c. Had EU intervention the critical mass necessary to have an impact on the reform? From the strict point of view of its size the project was large enough to exert a significant impact.</td>
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<tr>
<td>2d. If not was EU intervention well co-ordinated with other donors? As already mentioned there is no common view among foreign donors as regards the policy to implement in the agro-food sector. This adds to the confusion created by divisions among Ukrainian policy makers.</td>
<td></td>
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<tr>
<td>3. Was the partner organisation well chosen? There were much to many partner organisations with different if not contradicting agendas.</td>
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<tr>
<td>4. Were the ToRs still adapted to the actual situation at the starting time of the projects? ToR were very badly conceived and designed</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>3. Has the PO or the beneficiary taken ownership of the output of the intervention? None of the partner organisations involved took ownership of the project. This resulted in consultants producing reports which did not meet any demand.</td>
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<tr>
<td>4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? The project developed in a chaotic way without anybody (partner organisations, task manager, contractor) being able to get control on it.</td>
<td></td>
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<tr>
<td>5. What is the chance of continuation after end of Tacis support? A much more modest project of assistance to the formulation of an agricultural policy is presently developed in co-operation with other donors in the framework of an EES.</td>
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</tbody>
</table>
5.7 Main recommendations regarding Tacis interventions in the agro-food sector

Technical assistance to production

- The withdrawal of Tacis from this area since 1993 is justified since this type of intervention, although it may be demanded by potential beneficiaries and lead to rather successful projects, is not consistent with Tacis fundamental objective to support the transition of Ukraine from a command economy towards a market economy.

Restructuring at the enterprise level

- As long as the Ukrainian government has not designed a strategy, whatever it is, for the restructuring of enterprises in the agro-food sector and implemented the policy framework requested by the implementation of this strategy, projects in this area are due to be poorly effective and to fail to produce any significant impact. One may be surprised that, in spite of the disappointing experiences accumulated in this area since 1991 and although conditions for more success are still missing, a restructuring project is to be found in the 1998 AP.

Institution building

- The impact of structures supportive of the restructuring process at the enterprise level will remain very limited as long as no clear policy is being designed and implemented in this area. Tacis should accordingly not embark in the establishment of such structures unless it is able to secure that they will benefit of some support for a long period.

- A support to the establishment of trade organisations and professional unions is better justified since such organisations may favour the grow of reform seeds, promote a more sensible approach of agricultural problems by policy makers and, at the best, contribute to remove the political blockade of the reform process in the agro-food sector. But very much attention should be devoted to the identification of the projects and to the selection of the partner organisations in order to exert a leverage where conditions have been created for a change and to support partners genuinely committed to reform.

Policy advice

- The design of a reform policy for the agro-food sector is a pre-condition to any significant progress in this sector. However experience clearly demonstrates that, as long as there is no willingness or political capability on the government’s side to take this step, technical assistance to policy makers is useless. However, because things are slowly moving at the grassroot level and because of the emergence of reform-minded organisations and unions, a way out of this blockade should eventually to take place. Tacis might contribute to a more sensible and transparent debate on this question through an assistance to the development of an Ukrainian capacity to analyse agricultural policy issues.
6. **ENERGY ENVIRONMENT**

Until now, Tacis has financed only one small environmental project. Therefore, this evaluation focuses exclusively on interventions in the non-nuclear energy sector; nevertheless it is important to keep in mind that the issues raised by the closure of Chernobyl are one of the main reasons explaining the interest of Western Countries for the non-nuclear energy sector.

6.1 **THE REFORM TO SUPPORT**

6.1.1 **Situation of the energy sector**

Ukraine is one of the most energy intensive countries in the world; but more than 50 per cent of its fuel and energy needs have to be imported, mainly from Russia and now at world prices. Exports of electricity have almost ceased and the electricity system is now isolated from its neighbours (with two exceptions: the Lviv and the Kharkiv regions, the first with the West and the second with Russia).

Coal, gas and oil production have been continuously decreasing since before 1991 and investment in these sub-sectors has almost completely stopped. Indeed as long ago as the mid-1970s, the Soviet government decided that coal was no longer a priority and hence began considerably to reduce investment in the coal mining industry from that time.

Another noteworthy characteristic of the sector is the role played by nuclear energy, accounting for more than 20 per cent of electricity generating capacity and between 45 and 50% of electricity production. Besides Chernobyl, Ukraine owns 11 VVER 1000 (the most advanced Soviet type of nuclear reactor); more were under construction at the time the USSR collapsed, among them Khmelnitsky 2 and Rovno 4. Lack of money resulted in the halting of construction of those plants in 1991; at that time, they were 90 per cent complete. In December 1996 the EBRD and Ukraine agreed on a loan to finance the completion of K.2 and R.4.; among the conditions attached to this loan was a demonstration that the completion of the two plants was the “least cost option” to satisfy the energy needs of the Ukraine in the future. No decision has been taken at the moment.

Situation of the energy enterprises is made difficult by large payment arrears from their clients. Furthermore it is estimated that only about 20 per cent of the fuel and energy sector transactions are paid in cash, the rest being paid on barter or other type of exchange arrangements, or not at all.

6.1.2 **Government policy**

The Government of Ukraine has recognised the need to tackle the problems of the energy sector and from 1994 new features of energy policy have been formulated. They rely on:

- an increased reliance on domestic energy sources;
- a diversification of geographical sources of energy imports;
- the formulation and implementation of an energy saving policy.

In February 1994, the Parliament passed the “Concept Law for the Development of the Fuel and Energy Complex up to 2010”. The directions defined in this document were further elaborated in the National Energy Programme for Ukraine up to 2010 approved in May 1996. This programme was a useful step in the development of an energy policy but lacked specifics; moreover the $ 10 bn price tag attached to it for the financing of the needed investments did not correspond to the financial situation of the country and/or its borrowing capacity.
In 1995 a Presidential Decree set up the State Committee for Energy Savings which is responsible for the implementation of energy saving policies. The target is to reduce energy consumption by 17 per cent until 2010. The most efficient policy would certainly consist in enforcing the payment of energy bills, first of all by big consumers; but the general economic situation is such that the Government is still reluctant to implement this policy because many big enterprises would go bankrupt. Therefore, the State Committee still determines energy consumption norms for each industrial sector of the economy and its inspectors verify that energy consumption does not exceed the norms.

Following a Presidential Decree issued in April 1995 the Electricity Supply Industry (ESI) is being restructured under the aegis of the World Bank which made the disbursement of a $317m loan conditional on the implementation of this restructuring. The vertically integrated electricity Ministry (Minergo) was redistributed into a regulated wholesale electricity market (Energomarket) with competing generators and suppliers and a regulated common carrier providing transportation. This reform, modelled after the U.K. system reform of 1990, is now at the crossroad: the price of electricity is still centrally determined because the Government considers that prices resulting from the functioning of the Energomarket are too high and politically unacceptable. Moreover the reform was implemented in such a way that it resulted in the proliferation of “independent electricity suppliers” whose main activity is to negotiate barter deals between buyers and sellers of electricity. Such barter deals represent a regression to what Karl Marx called the “Asian mode of production”; more wearisome, it adds considerably to the total cost of the Ukrainian ESI.

In the coal sector a Presidential Decree issued in February 1996 launched a restructuring programme to be completed over 10 years. It foresees the modernisation with financial assistance of the World Bank of those mines which can be made profitable while others will be closed.

The oil and gas sector should also undergo a far reaching restructuring process whose principles have been formulated in a National Programme for the Development of the Oil and Gas Sector up to 2010 approved by the Cabinet of Ministers in 1995.

6.1.3 Other donors interventions

For Ukraine, the challenge posed by the energy sector is considerable. Therefore, since independence international aid donors have prioritised the energy sector. This stance has been reinforced by the G-7, which required the restructuring of the energy sector as a prerequisite to its assistance to Ukraine for the closure of Chernobyl.

The World Bank, the EBRD, USAID and several other bilateral donors offered their assistance to the Ukrainian government. An impressive number of studies have been financed by donors until the end of 1997 “consultancy fatigue” is expressed by some beneficiaries. Therefore there is a need for co-ordination mechanisms between donors; herewith are two examples of such mechanisms:

- The World Bank co-ordinates the technical assistance projects which contribute to help the ESI participants to adapt to the new context. The need for an efficient co-ordination mechanism is very strong, given the many interfaces between the tasks which have to be implemented. The co-ordination mechanism set-up by the World Bank to that effect is very useful but its efficiency remains limited by the fact that each donor keeps its own agenda (see below for more details);
- Tacis and the EBRD have developed good working relationships: EBRD is kept abreast of the developments of Tacis funded projects which may result in investment proposals (energy savings, power…) and it is now required that contractors give beneficiaries some guidelines on how to access financial institutions. Indeed Business Plans produced during the course of Tacis projects now have to meet EBRD’s requirements.
6.2 **OVERVIEW OF TACIS INTERVENTION**

Although the Energy Sector was retained as a focal sector only in the 1994 Action Programme, it was an “other priority sector” in all other years and benefited from a large EC contribution with more than 45 projects being implemented in the 1991-1995 period, 57 in the 1991-1997 period.

**The 1993-1995 Indicative Programme** stressed that Ukraine is heavily dependent on imported energy and that the economy has been severely hit by a substantial shift in the cost of energy following the break-up of the former Soviet Union. It therefore envisaged to concentrate EC technical assistance in the following areas:

- energy sector reforms at the central and local level;
- diversification of fuel sources;
- improvement of efficiency and economic viability of the coal industry;
- energy savings in both the domestic and industrial sectors.

These directions are convergent with the energy policy defined by the Ukrainian government.

The 1993-1995 Indicative Programme further underlined that energy related activities should be closely integrated with the enterprise sector activities in the regional restructuring programmes.

These priorities and directions have been maintained in the next IP.

**The 1996-1999 Indicative Programme** did not introduce any major change in the priorities for the energy sector; indeed the new priorities were as follows:

- encouragement of energy efficiency;
- support to International Financial Institutions in their future loan operation and support for the encouragement of private investment. In this context, continued support should be provided to the on-going Power Sector Reform process (undertaken in 1994 under the aegis of the World Bank);
- support of environment in order to further strengthen the environmental dimension; programmes in the areas of waste water, solid waste management, industrial pollution control, district heating, hazardous waste management and biodiversity will be developed and supported in addition to horizontal measures.

Priorities are defined very broadly; table II-6.1 shows that energy saving projects were given the lion’s share of the Tacis energy programme.
### Table II-6.1: Tacis main intervention in energy

<table>
<thead>
<tr>
<th>Action Programme</th>
<th>Electricity Supply</th>
<th>Energy Savings</th>
<th>Technology Transfer/industrial Co-operation</th>
<th>Others (Coal, Oil &amp; Gas, Environ.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nr. proj.</td>
<td>MECU^35</td>
<td>Nr. proj.</td>
<td>MECU</td>
</tr>
<tr>
<td>1991</td>
<td>3</td>
<td>1.735</td>
<td>8</td>
<td>4.750</td>
</tr>
<tr>
<td>1992</td>
<td>1</td>
<td>0.450</td>
<td>4</td>
<td>4.040</td>
</tr>
<tr>
<td>1993</td>
<td>1</td>
<td>0.900</td>
<td>1</td>
<td>0.600</td>
</tr>
<tr>
<td>1994</td>
<td>2</td>
<td>3.130</td>
<td>4</td>
<td>5.300</td>
</tr>
<tr>
<td>1995</td>
<td>2</td>
<td>0.240</td>
<td>4</td>
<td>3.240</td>
</tr>
<tr>
<td>1996</td>
<td>1</td>
<td>1.500</td>
<td>2</td>
<td>7.500</td>
</tr>
<tr>
<td>1997</td>
<td>1</td>
<td>2.500</td>
<td>2</td>
<td>2.600</td>
</tr>
<tr>
<td>1998</td>
<td>1</td>
<td>3.000</td>
<td>2</td>
<td>2.600</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>11.955</td>
<td>26</td>
<td>29.530</td>
</tr>
</tbody>
</table>

### 6.3 Relevance and Appropriateness

Overall Tacis intervention policy has consisted in identifying a number of broad areas, all very relevant in the current situation of Ukraine and consistent with the Government policy. Either in response to demands or in the context of a dialogue with the Ukrainians, Tacis has then financed various projects which all had many merits on their own and were consistent with the overall policy lines within these selected areas. The 1998 Action Programme includes two projects concerning the environment; it represents a substantial shift of priorities although several projects already financed by Tacis (energy saving projects…) should have an indirect (and beneficial) impact on the environment. However, Tacis did not conduct any in depth analysis of these policy directions, and either accepted the leadership of other donors (this is, for instance, the case of intervention to support the reform the ESI), or the prevailing ideas on the path to follow.

It is the conviction of the evaluation team that this may have led to supporting sub-optimal policies in terms of relevance, and therefore in terms of potential impact, and that better policies could have been adopted would the necessary analytical studies have taken place (see below).

Moreover the EC could have based its intervention policy on firmer grounds than presently by commissioning a low cost/high yield analytical studies; for example:

*The “Surrey report”, commissioned by EBRD in 1996 and completed at the end of the same year, concluded that the completion of the K.2 and R.4 Nuclear Power Plants was not the “Least-cost option” to meet the future Ukraine electricity needs; this immediately raised a hot controversy, the main point of contention being the assessment of the actual state of the Ukrainian fossil fuel power plants: according to one opinion there is already in Ukrainian a huge overcapacity and therefore no new capacity is necessary to meet the demand for a long time; according to another opinion this overcapacity is illusory because most of the coal fired power plants are in such a dilapidated state that they cannot be rehabilitated.*

*To maximise the relevance and the impact of its intervention policy the Commission could and should have taken the initiative (at the end of 1996) to task three or four experts to make a short survey of the real situation and to provide an informed judgement on the overcapacity issue; in fact several studies financed by Tacis had already produced partial surveys of the Ukrainian fossil fuel power plants; those studies could have been easily and rapidly completed to deal with one of the most contention issues raised by the aforementioned “Least cost study”.*

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35 In general budgetary figures refer to contracted budgets for projects under Action Programmes prior to 1996 and to commitments for 1996 and after.
The Project Evaluation Notes 4-1 yo 4-4, in volume II, provide a more detailed analysis of individual projects or consistent blocks of projects while the remaining of this section extracts the main features of the energy programme in terms of Relevance and Appropriateness, Effectiveness and Efficiency, Impact and Sustainability.

We focused our analysis on three blocks of projects/themes: Reform of the Electricity Supply Industry, Energy Savings and Technology Transfer/Industrial Co-operation.

**Electricity Supply Industry Restructuring**

From 1994 onwards, EU intervention followed the leadership of the World Bank which made the implementation of a restructuring plan of the Ukrainian ESI a condition for the disbursement of a $317 million loan. The “EMDP – Electricity Market Development Project – loan agreement “was finally approved in November 1996 only but the decision to restructure the Ukrainian ESI was taken by the President of Ukraine in May 1994.

The restructuring strategy was modelled upon the United Kingdom reform adopted in 1989.

Then the Ukrainian Government called to potential donors for grants to finance the technical assistance needed during the implementation phase of the restructuring plan. Each donor (the UK Know-Fund, USAID, Tacis…) accepted to finance one or several of the tasks into which the whole project had been separated in the “implementation guide” provided under the aegis of the World Bank. It was anticipated at the time that the project would last two years; i.e. be completed by the end of 1996/mid 1997.

These delays illustrate the fact that the liberalisation of electricity (or power) market can succeed only if conditions are fulfilled, which in Ukraine, were not and are probably still not met. The example of UK which recently postponed market arrangements programmed in 1990 and scheduled for 1998 suggests that the probability of occurrence of these delays could have been given more attention in the design of the reform in Ukraine.

Tacis financed five projects in four different areas; four of them are now completed; the fifth is being implemented at the moment. The relevance of the EU intervention depends on the relevance of the ESI restructuration plan adopted by the Ukrainian Government.

EU intervention is co-ordinated with other donor’s interventions by a consultant appointed by the World Bank.

The partner organisations were among the main players of the new structure: the Nuclear Generator, seven among the 27 LECs (the newly created local Electricity Companies), the National Electric Company and the Market Fund Administration.

**Energy savings**

As aforementioned, Ukraine is one of the most energy inefficient country in the world. The main reasons have been well documented in several studies: the weight of energy intensive industries (like steel); obsolete technologies and the lack of funds to replace them, even to implement low-cost improvements, the non payment issue compounded with the development of barter deals, etc… The ratio

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36 It is noteworthy that the UK reform started in April 1990 and was at that time supposed to be fully implemented by April 1998 only. Moreover, the UK concept provided a step by step introduction of competition, the last segment of the market to be open to competition being the household market; Ukrainian households had access to competition on day one of the Reform. The British Government recently ordered a review of the results of the reform and decided to postpone the full implementation of the reform until 1999.
of energy consumed per unit of GNP is still increasing, due to the low level of activity in most energy consuming industries.

This situation reverberates over many aspects of the economic situation and the energy bill of Ukraine (now paid in hard currency) represents a major constraint on the rest of the economy.

Therefore the priority given to energy savings by Tacis since 1992 is justified. Moreover, among donors, Tacis is the major provider of technical assistance. Tacis projects can be classified in two sections:

- institution building projects;
- technically oriented projects.

We consider that this strategy was relevant and appropriate.

Co-ordination with financial institutions is essential because most energy saving measures imply investments and Tacis does not finance investments. Co-ordination with EBRD has considerably improved recently.

**Technology Transfer/Industrial Co-operation**

Theoretical capacity of the installed Fossil Fuel Power Plants of Ukraine is about 37 GW. Ninety per cent of this capacity is more than 20 years old. Some are in a dilapidated state. Moreover, the technology of most Ukrainian boilers is not adapted to the coal produced in Donbass, which is of low quality.

Therefore, there is a huge potential market for the rehabilitation and replacement of boilers in Ukraine. This market will materialise as soon as the prospect of development of the Ukrainian economy improves. As a matter of fact, both the EBRD and the World Bank have already taken steps to provide loans to assist the Ukrainian equipment industry.

For those reasons and quite logically, the setting up of an Ukrainian boiler industry is a priority of the Ukrainian Government.

A few Tacis projects contribute to this objective: introduction to the Ukraine of the Circulating Fluidised Bed (CFB) Technology; assistance in the development of the technology for boiler production and for valve production; power generation efficiency study; transfer of know-how in economic analysis of modern combustion technology.

They are all relevant and appropriate; the partner organisation is the Ministry of energy and the beneficiary (an Institute or an enterprise) has usually been selected in agreement with the contractor.
6.4 Effectiveness and Efficiency

Electricity Supply Industry Restructuring

The implementation of the restructuring project is running into difficulties unanticipated by its initiators. Indeed a comprehensive legislation is now in place: pool (the wholesale electricity market) rules have been approved, the former vertically and horizontally integrated system has been dismantled and the assets of the former system vested into a set of new independent entities, according to the UK model. But there is a huge distance between the legal context and the reality; the Energomarket is not a true and “efficient” market as yet and the Government constantly intervenes in the functioning of the market.

Those difficulties have many reasons: the project was over ambitious and insufficiently adapted to the Ukrainian situation; the economic situation (including the development of payments through barter) is such that the main preoccupation of Power Plant manager is to get the fuel necessary to run their plants the next couple of days.

The “ownership” of the projects financed by Tacis differs from one project to the other: the assistance to the newly created National Electric Company (the High Voltage Transport Company) can be considered as successful with good “ownership” by the beneficiary. The assistance to the newly created Nuclear Generator was impaired by the uncertainties of the Government policy towards this entity; the main issue for the project was the insufficient commitment of a partner who was mainly preoccupied with the political issues.

The efficiency of the project aimed at assisting Local Electricity Companies is difficult to assess; there is no visible impact as yet. As a matter of fact the LECs are at the forefront of the non-payment issue; privatisation was supposed to provide the investment funds indispensable to maintain distribution network but the first attempts at privatisation were unsuccessful.

Concerning the fourth project, aimed at assisting the Ukrainian Energy Market Fund Administrator, it provides a good summing up of the difficulties encountered:

- it started with a delay of more than 10 months although it was very much needed by the beneficiary;
- available funding and duration were inadequate.

In its final report, the Contractor stated: Successful implementation of any complex software depends on a number of prerequisites i.e. relevant experience of employees, organisations structure, preparation of chart of accounts, existing job description, routines, interfaces with other departments. These prerequisites were not fulfilled when the Consultant started the Project... a lasting system development is only possible if an ongoing coaching for NDC (the National Dispatch Center – beneficiary of the project) is implemented. We are afraid that, at the moment, the situation has not changed very much.

Energy Savings

Institution building projects

The bulk of the energy saving Tacis projects aimed at assisting the Ukrainian Government in developing its capabilities to define and implement an energy saving policy adapted to a market economy. The main focus of those projects was the establishment and the coaching of a State Committee for Energy Savings created by law of the Supreme Soviet in July 1995, following a recommendation made by Tacis. But the actual remit of the Committee is still very different from the remit of any West European Energy Saving Agency (ETSU in the UK, IDEA in Spain, ADEME in France...): according to its Vice-Chairman, its work load consists mainly in the establishment and enforcement of energy efficiency norms for the
different industrial sectors and in monitoring energy saving achievements of different ministries. The opinion of the Vice-Chairman is that norms are necessary until energy users pay their bills, which is not the case at the moment; it reflects the fact that there is still a long way to go before the Ukraine has developed an efficient Energy policy. The “ownership” of project is still very shaky.

On of the most efficient projects resulted in the Establishment of an Energy Management Training Center (EMTC) at the Kyiv Polytechnical Institute.

Technical projects

The first set of Tacis projects (1992-1993) aimed at completing Energy Audits in several industrial sectors. The opinion of the M & E team is that, with the exception of a steel industry audit, this early set of energy audits was much as for Tacis and its contractors to find out about the Ukrainian energy sector as to the benefit of the Ukrainian Partners.

The following projects were more successful.

A good example is a project aimed at promoting energy savings in the building sector in Ukraine through the demonstration of modern control and metering systems.

Others projects of the same nature are noteworthy; they concern district heating networks, the food industry, the fuel efficiency in road transport, etc…

All those projects resulted in “bankable” projects; it remains that the Ukrainian banking system is not up to the task, as yet.

Indeed, precise and monitorable TORs are easier to write for projects aimed at transferring a given type of technical expertise – with its organisational implications: a new technical approach usually implies a new organisation approach – to a given Ukrainian technical institute or enterprise, than TORs aimed at assisting the Government in developing new policies. Moreover, during the implementation phase, the cultural gap is much less for this kind of projects than for projects aimed at providing policy advice like institution building ones.

Technology Transfer/Industrial Cooperation

One can say that, globally, expected outputs were effectively delivered and that contractors’ interventions met their targets in terms of timeliness and delays. Project output ownership is good. The selection of the right beneficiary at the industrial level is a key of success; the involvement of the contractor is this selection increases the probability of a continuation of the co-operation beyond the contract.
6.5 **IMPACT AND SUSTAINABILITY**

As already said, the achievements of the energy policy of the Ukrainian government, although substantial, are still shaky, but Tacis contributed significantly to what has been achieved.

**Electricity Supply Industry Restructuring**

The difficulties encountered during the implementation phase of the Tacis contribution to the World Bank project have several reasons, among whose the most important ones seems to us as follows:

- The Ukrainian reform was too ambitious to be introduced in one bold step; it was launched under the aegis of the World Bank without (at least to our knowledge) any preliminary analysis of the situation and at a time when the U.K. reform was still in the first stages of its implementation and very few people were aware of the difficulties to overcome;
- The U.K. reform was adapted to the actual status of the U.K. supply industry. For instance: in the U.K. the British Area Boards (the distribution and supply entities before they were privatised and became RECs - Regional Electricity Companies) were profitable and cash rich; there was no modification to their geographical boundaries; there was no interchange of personnel, management, consumers or assets; networks were well established and well maintained; revenues collection and staff management problems did not exist etc. The Ukrainian LECs (Local Electricity Companies) were simultaneously confronted to all the problems;
- Moreover it was an illusion to think that the reform would by itself solve the non payment issue. Indeed, the issuance of too many “independent Supplier’s Licences” by the NERC (the Ukrainian Electricity Regulator) exacerbated the situation.

Indeed, the numerous projects financed by the donors have already resulted in a better understanding of the different functions which have to be implemented for an electricity system to work efficiently, of the costs of each of those functions and the way to reduce them. But such results could have been achieved at a much lower cost.

Moreover it is likely that the Ukrainians will need assistance for many years to come.

Therefore we consider that the time is right for the Commission to commission an independent review of the reform (the U.K. Government recently commissioned such a review of the U.K. ESI reform., of its objectives and priorities). The results of such a review would permit the European Commission to better focus the projects it intends to launch in the near future.

**Energy Savings**

- The contribution of Tacis to the creation of energy saving institutions has been decisive: thanks to Tacis the training center at the Polytechnical Institute of Kyiv is now fully operational; the creation of the State Committee for Energy Savings results from recommendations made by Tacis contractors. But a lot remains to be done, in particular for what concerns the efficiency of the State Committee and the necessary clarification of its missions;
- Tacis also brought an important contribution to an energy saving policy in financing projects which resulted in “bankable” investment projects which meet internationally accepted criteria;
- Tacis contributed with the EBRD to the creation of the Ukresko, an Ukrainian Company which will, with the help of a loan of the EBRD, provide small and medium sized loans to energy saving investment projects submitted by Ukrainian enterprises. It is expected that the Ukresko, the creation of which has been discussed for about two years, will become operational shortly. One reason for the

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37 See Project Evaluation Note 4.2 in Volume II for details
delay was the unsuccessful quest for private investors in the capital of the Ukresko; therefore, the Ukresko will be a State owned company (a second best solution). The intention is to privatise the company after two years, in the hope that it will have then proved its efficiency; the loan was approved by the board of EBRD at the beginning of May 1998.

Nevertheless, it should be reminded here that the bulk of the $26 million energy saving programme funded by Tacis has been spent to assist the Ukrainian government in developing an energy saving policy; results still lack visibility.

The technologically oriented projects (Training Center, cost effective District heating; efficiency technique in the Building sector of Ukraine...) remain, in our judgement, more successful that institution building project.

**Technology Transfer/Industrial Co-operation**

All the projects had an impact on beneficiaries. The most successful project so far concerns the assistance in the development of the technology for boiler production; this project resulted in the creation of a JV between the West European contractor and this JV is operational. This project suits the interest of both the Ukrainian and the West European Industry.

Other projects basically present the main features as the boiler project but, at least to our knowledge, have not resulted in industrial co-operation ventures so far. One reason is probably that the creation of a boiler industry in Ukraine was, quite logically as said above, the first priority of the Ukrainian government and the influence of the Ukrainian Government in those matters is still decisive.
### 6.6 MAIN CONCLUSIONS AND EVALUATION OF TACIS INTERVENTION IN THE AREA

#### Table II-6.2: Main conclusions regarding evaluation of Tacis intervention in ESI restructuring

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESI restructuring</td>
<td>1. Was the reform to support well identified? Insufficiently identified? From 1994 onwards, the reform to support was the reform adopted by the Ukrainian Government which followed the advice of the World Bank. This reform aimed at implementing in the Ukraine a simplified version of the ESI reform which started in April 1990 in the UK and was at the time considered as a model.</td>
<td>1. Were the expected outputs effectively delivered? Most expected outputs were delivered in accordance with the TORs. 2. Did the intervention meet its targets in terms of timeliness and delays? Globally, Tacis interventions met the targets within delays compatible with the slow pace of the reform;</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc..)? The impact on the partner organisation depends on the projects: indeed the relevance of some Tacis projects (or of parts of them) is for a large part independent of the reform; which ever the reform may be, there is a need for sound accounting practices, for a sound methodology to assess investment needs etc.</td>
<td>1. An independent review of the ongoing reform, of the results achieved and of the future needs of Ukraine for technical assistance is lacking. The conclusions of such a review should greatly improve the efficiency of the projects Tacis intends to finance in the future 2. The remit of the co-ordinator needs to be reviewed in order to clarify its responsibility.</td>
</tr>
<tr>
<td></td>
<td>2. EU Intervention strategy The EU intervention strategy was to follow the leadership of the W.B. We are not aware of any study commissioned by the Commission to get an independent advice on the appropriateness of such a reform in an Ukrainian context. Tacis was one of the main contributors (four projects already completed and one being implemented) to the financing of the technical assistance needed by the Ukrainians. The projects financed by the donors (beside Tacis: USAID, the Know-How fund etc.) were co-ordinated under the aegis of the W.B. The remit of the consultant in charge of the day by day coordination activities is rather weak because each donor keeps its own agenda.</td>
<td>3. Has the PO or the beneficiary taken ownership of the output of the intervention? The ownership of the reform remains insufficient: Ukrainian ESI’s manager’s priorities remain to find the means to buy or barter the fuel they need to run their plants the next couple of days and to avoid the breakdown of the system</td>
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</table>

**Evaluation of EC Country Programme in Ukraine**
Table II- 6.2 ( Continued): Main conclusions regarding evaluation of Tacis intervention in energy savings

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3. Was the partner organisation well chosen? Partners organisations were among the main actors of the Ukrainian ESI and therefore well chosen</td>
<td>4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? The effectiveness of Tacis projects was hampered by the fact that the Ukrainian economic system did not meet (and still does not meet) the conditions required for the U.K. model to be successfully implemented. The non payment issue also contributed to the lack of effectiveness.</td>
<td>5. What is the chance of continuation after end of Tacis support? We don’t think it is possible to say that the Ukrainian ESI has already undergone the reform. Therefore T.A. will be needed for many years to come</td>
<td></td>
</tr>
<tr>
<td>Energy Savings</td>
<td>1. Was the reform to support well identified? Insufficiently identified? Ukraine being one of the most energy inefficient country in the world and having to pay most of its energy bill in hard currencies, the relevance of “Energy Savings” as a priority is totally justified. It is also one of the priorities of the Ukrainian Government. 2. EU Intervention strategy As we understand it, the EU intervention strategy is a two-pronged strategy: • Institution Buildings projects, i.e. assisting the Government to define an Energy Saving policy and to set-up appropriate Institutions. 1. Were the expected outputs effectively delivered? A lot of material has been produced: fact sheets, technical documents, guidelines, videocassettes etc. 2. Did the intervention meet its targets in terms of timeliness and delays? Technically oriented projects globally met their targets in terms of timeliness and of delays. TORs for such projects are usually of a better quality than TORs for Institution Building projects …and, we must add, much easier to write and, then, to monitor. 1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc..)? The main visible impacts are: • The creation of the State Committee for Energy Savings (SCES). • The creation of the Ukresko “Bankable” energy saving projects. • The strengthening of institutions like the State Committee of Urban Development and Architecture (SCUDA), which has already replicated the demonstration project recently financed by Tacis.</td>
<td>1. An interruption of the technical assistance to the State Committee for Energy Savings would seriously impair its very existence. On the other hand the SCES should not believe it is entitled to benefit from Tacis projects for ever. 2. The lack of well organised archives is particularly detrimental to the efficiency of Tacis programme because most energy saving projects address issues of the same nature.</td>
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</table>
### Table II-6.2 (Continued): Main conclusions regarding evaluation of Tacis intervention in technology transfer/industrial co-operation

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• More technically oriented projects, i.e. transferring technical expertise to technical institutes or committees and to local governments, in some cases implementing demonstrations projects an developing business plans. With more than 25 MECU for the period 1991-1995, the EU intervention can be considered as having achieved the critical mass. EU intervention is now better co-ordinated with the intervention of the EBRD than it was the case during the first years of Tacis. 3. Was the partner organisation well chosen? Partner organisations were well chosen. 4. Were the ToRs still adapted to the actual situation at the starting time of the projects? Changes in the Government Policy made that ToRs for Institution Building projects often needed to be modified in order to reflect those changes.</td>
<td>3. Has the PO or the beneficiary taken ownership of the output of the intervention? Ownership seems to be better for technically oriented projects than for Institution Building projects. 4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? This has not been a major issue.</td>
<td>• The creation of a training centre for energy management at the Kyiv Polytechnical Institute. Its director recently claimed that half of its 1998 budget will be covered by local customers. Less visible are the results of efforts aimed at assisting the aforementioned SCES in developing a sound and comprehensive policy. 2. Has there been an impact on the process of reform? Some projects have been replicated: the SCUDA and the Training Center have already begun to replicate what they learned during Tacis project 3. Has there been impact in terms of restructuring of the economy? Chances of continuation of technically oriented projects are good, especially if the Ukresko delivers the goods. 5. What is the chance of continuation after end of Tacis support? The non payment issue is one of the main factors which hamper the sustainability of otherwise successful projects. This remark is not specific of energy saving projects.</td>
<td>In the absence of user friendly archives (including the technical reports produced by the contractors) it is difficult to assess the (probable) overlap between projects whose TORs present a lot of similarities. 3. The bulk of the TA funds was directed at Institution Building projects. More emphasis should be given to more technically oriented projects.</td>
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Evaluation of EC Country Programme in Ukraine
<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology Transfer/Industrial Co-operation</td>
<td>1. Was the reform to support well identified? Insufficiently identified? The restructuration of the boiler industry is one of the priority of the Ukrainian Government; a priority which, given the parlous state of many Fossil Fuelled Power Plants is justified. On the other hand it is the interest of the EU that European industries participate in this restructuring.</td>
<td>1. Were the expected outputs effectively delivered? Expected outputs were effectively delivered. Contractors were industrialists who rapidly understood the needs of the beneficiaries.</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc..)? One project already resulted in the creation of a successful JV which is already operational.</td>
<td>Although a priority for Ukraine – whose industrial capacities are still deteriorating – and in the interest of the European Union, the intervention of the Commission is modest.</td>
</tr>
</tbody>
</table>
6.7 **Main recommendations regarding this area of Tacis intervention**

- To give more emphasis to technically oriented projects aimed at fostering industrial co-operation between West European enterprises and Ukrainian enterprises;
- To undertake, as soon as possible, a review of the ESI restructuration plan. We also suggest that special emphasis be given to an assessment of the assistance which has already been provided to the LECs;
- To set up an exhaustive, updated and user friendly archive system of all the energy saving reports (including the technical ones) produced by contractors; the only systematic archive system including the contractors reports is being built up in the Co-ordination Unit. Although it is not completely exhaustive it could serve as a basis;
- To assess the “absorption capacity” of the SCES before launching any new project with the SCES as a beneficiary, taking due account of the fact that the absence of designation of a successor to the Chairman of the Committee has created a situation which should be regarded, hopefully, as temporary.
7. **TRANSPORT AND TELECOMMUNICATIONS**

7.1 **THE REFORM TO SUPPORT**

Transport is a more than usually important sector in Ukraine on account of the country's geographic location, which makes it a potentially major transit point for trade between the NIS and Western Europe, as well as to the wider world through the Black Sea ports. The main issues confronting the sector are:

- The fall in traffic levels, which has resulted in major financial losses for transport enterprises, particularly for railway and urban transport operators;
- A shortage of transport capacity, now masked by a decline in traffic levels but which will become more apparent when the economic situation improves and economic ties with Western Europe intensify;
- The virtual absence of road user charges, while those which do exist are not earmarked for road improvement.

As with many other sectors of the economy, the need for reforms begins to be well understood, but their implementation is hindered by the general economic climate and consideration of the heavy social costs associated with major enterprise restructuring.

As in all CIS countries, improvements in the telecommunication sector are needed to support the development of the private sector and to facilitate relations with the rest of the world. The main issues are:

- Insufficient network penetration (14 lines per 100 inhabitants against an average of 42 in OECD countries) in particular for international calls beyond the CIS;
- Domestic tariffs insufficient to provide the revenues necessary to finance the needed reforms and investments to upgrade the network;
- Unsatisfactory state of the regulatory and legal frameworks.

In both sectors, major restructuring is necessary to respond to changes in the economy and to become responsive to customers' needs.

7.2 **OVERVIEW OF TACIS INTERVENTION**

**Table II-7.1: Tacis main intervention in transport/telecommunication**

<table>
<thead>
<tr>
<th>Action Programme</th>
<th>Transport</th>
<th>Telecommunication</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nr. proj.</td>
<td>MECU</td>
</tr>
<tr>
<td>1991</td>
<td>3</td>
<td>4.810</td>
</tr>
<tr>
<td>1992</td>
<td>4</td>
<td>8.080</td>
</tr>
<tr>
<td>1993</td>
<td>7</td>
<td>3.220</td>
</tr>
<tr>
<td>1995</td>
<td>1</td>
<td>1.800</td>
</tr>
<tr>
<td>1997</td>
<td>2</td>
<td>3.500</td>
</tr>
<tr>
<td>1998</td>
<td>1</td>
<td>1.800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17</strong></td>
<td><strong>21.410</strong></td>
</tr>
</tbody>
</table>

Budgetary figures refer to contracted budgets for projects under Action Programmes prior to 1998, and to commitments for 1998.
From 1991 to 1998 total Tacis allocations to the Transport and Telecommunication sector amounted to MECU 22.7, that is 7.0 percent of the total allocated budget. These allocations were concentrated on transport which benefited from a global allocation of MECU 21.4, whereas only MECU 1.15 was devoted to telecommunications\(^\text{39}\).

Basic Networks (transport and telecommunications) were viewed as a priority in the early years of the Tacis programme: fifteen projects were funded by Tacis within the 1991-93 action programmes.

Projects have been undertaken in the five sub-sectors of transport without any clear prioritisation between them: ports (mainly Odessa), inland waterways, road, railways and air. Some of them deal with policy advice, others are more technically oriented.

Given the limited resources of Tacis and the nature of assistance to these infrastructure sectors which need large investments their eligibility for priority Tacis support evolved overtime and the logic of intervention is not always clear. Transport was identified as priority intervention area in the 1993-1995 Indicative Programme, but already in the 1993 Action Programme it was removed from the focal sectors. In the 1996-1999 Indicative Programme support to the transport sector is envisaged only in the form of assistance in legal and policy advice. Nevertheless, after three years without any project (94/95/96), transport – in particular road transport – was again a priority with two projects in 1997 and one project planned in 1998.

Telecommunications have never been a priority of Tacis. The reason is that telecommunications are seen, in Ukraine as elsewhere, as a potentially profitable business of interest to Western investors, who are therefore expected to provide Ukraine with training and equipment. Only two projects have been funded by Tacis. None was successful.

In addition to its direct intervention through its mainframe programmes, Tacis also provided, under the Bangkok facility, resources to finance technical assistance associated with the identification and implementation of transport projects.

Given the difficulty to access the archives (Monitoring reports and contractors’ reports) concerning projects completed before September 1995 the following considerations will therefore be limited to the assistance to Ukravtodor – the road Directorate of the Ministry of Transport. Ukravtodor is the partner of the first Tacis project which has been completed at the moment: “The National Road Network Study of Ukraine and Technical Assistance in Economic Appraisal of Road projects”. This 1993 budget (project launched end 1994) was completed in May 1996.

### 7.3 Relevance and Appropriateness

The Ukrainian overall road network generally appears adequate for the present traffic level. However, since independence in 1991, financing available for road maintenance has declined sharply, resulting in deferred maintenance requirements and declining conditions of the road network. If allowed to deteriorate further, the additional costs in terms of increased vehicle operating costs and highway reconstruction will be a major burden on the economy in the years ahead.

The project “National Road Network Study of Ukraine” was divided in two separate components: “…the first being the national road network study and the second being technical assistance in road project appraisal”. It was also stated that “the two elements will be financed over a two year period and include two phases of technical assistance”. Phase I emphasised the technical aspects of the study, requiring

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\(^{39}\) Annex 3-4-5 to the Report of Phase II, *op.cit.*, provides a brief description of all the transport and telecommunication projects financed by the Commission.
specific research by the contractor, the creation of an extensive computerised data base and requiring the economic evaluation of road project as well as proposals for financing prioritised road projects. Phase II by contrast emphasised the formal training of Ukrainian specialists and the purchase of equipment necessary for road project appraisal.

The project can be considered as relevant and adequate although the sequencing between phase I and phase II was somehow paradoxical: for instance the purchase of equipment necessary for road project appraisal (phase I) were to be provided in phase II. The issue was solved during the inception phase. The required equipment purchased during phase I and the assessment of road conditions were limited to 7 000 km out of a network of 12 000 km. The beneficiary of the project was, quite normally, Ukravtodor, the Directorate in charge of roads at the Ukrainian Ministry of Transport.

The reform to support was well identified but the EU lacked a coherent financial strategy: the two phases were inextricably related, a fact well recognised in the TORs. This fact was confirmed in May 1996 during the meeting which discussed the Draft Final Report of phase I. Moreover, contacts were maintained during phase I with the World Bank and that institution required an extension of the project to carry out the assessment over the full 12 000 km of the network before it can select projects to finance.

Although phase I was completed in May 1996 phase II has not been contracted as yet and, to the knowledge of the evaluation team, no decision has been taken by the Commission whether to cancel it.

7.4 Effectiveness and Ownership

The expected outputs were effectively delivered. The completion of the project was delayed for about six months; the delay was mainly due to instability at the governmental level.

The effectiveness of the project was hampered by the fact that the Commission has not financed phase II immediately after phase I. The final report of phase I was highly appreciated by the World Bank, even if it did cover only 7 000 km or 58% of the Ukrainian road network.

7.5 Impact and Sustainability

The impact on the partner organisation is real but Ukravtodor needs more assistance to conduct road project appraisals and road assessment on a sustainable basis. In fact, Ukravtodor is at the moment the beneficiary of a Tacis project (1997 budget) aimed at reorganising the Ministry of Transport (the partner organisation) and will be the partner organisation of a second 1997 project whose tendering is not finalised at the moment. Moreover Ukravtodor is the partner organisation of a 1998 budgeted project focused on specific aspects of its reorganisation and not directly linked to phase II.

The real impact of such intervention depends evidently from the capacity to conduct road assessment and identify projects resulting into effective investment. This is beyond the reach of Tacis and explains both the lower priority of this sector for Tacis and the increased co-operation with IFIs who can provide loans for large infrastructure projects.
### 7.6 Main Conclusions and Evaluation of Tacis Intervention

#### Table II-7.2: Main conclusions regarding evaluation of Tacis intervention in transport and telecommunication (with special emphasis on the project “National Road Network Study”)

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport and Telecommunication</td>
<td>1. Was the reform to support well identified? Insufficiently identified? The reform to support was well identified and the EU intervention a clear one. The project is the phase I of a two phase project. It covers 7000 of the 12 000 km of the Ukrainian national road network. The two phases are inextricably linked (and presented as a single project in the TORs).</td>
<td>1. Were the expected outputs effectively delivered? Expected outputs effectively delivered in accordance with the TORs. 2. Did the intervention meet its targets in terms of timeliness and delays? A 6 month delay in the implementation did not impair the effectiveness of the project. 3. Has the PO or the beneficiary taken ownership of the output of the intervention? Ownership of the project by the PO is good. 4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? The project did not encounter any other difficulty but the usual ones (changes in the organisation of the PO); one reason is that it had a unique and clearly defined objective.</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc..)? There has been an impact in terms of increasing the technical capability of Ukravtodor in the areas of road assessment and project identification studies. 2. Has there been an impact on the process of reform? It is still premature to observe whether the project influenced the decision process but the potential for it is there and the project could lead to a prioritisation of decisions regarding road maintenance and investment. 3. Has there been impact in terms of restructuring of the economy? The restructuring impact must come from effective investments. Both EBRD and WB have indicated that they are interested to make loan to finance rehabilitation projects (World Bank) and improvement project (EBRD); the study offers an adequate support for such decision. 4. Has there been a replication of a successful project? The study can be considered as an example for conducting similar projects in other countries. 5. What is the chance of continuation after end of Tacis support? Sustainability is fragile and Ukravtodor will require further support. The completion of phase II, if it takes place, would increase the sustainability of the project.</td>
<td>• Road transport is an objective priority. The priority in terms eligibility for Tacis intervention has been and remain a question since Tacis can only offer limited assistance in an area where the main needs require important investment resources. • This project (with its two phases) is a good example of a project which was initially intended to be financed by two successive budgets, but the full implementation of which has been interrupted after phase I. The partner organisation is present waiting for the phase II which supposed to follow phase I (completed in May 1996). • There is a risk of overwhelming the partner organisation. One Tacis project has been launched at the end of 1997, two more are in the pipeline, all with the same partner who will face extreme management difficulties if the projects are not well co-ordinated and their boundaries well delimited.</td>
</tr>
</tbody>
</table>
7.7 **Main Recommendations**

General recommendations for this sector:

- To improve the consistency between the various forms of EC support to the sector: mainframe projects in the action programmes, EES projects and Bangkok facility interventions. To articulate these instruments on a sector strategy agreed upon with the Ukrainians and the other concerned donors (World Bank and EBRD in particular);
- To avoid financing feasibility studies and road rehabilitation projects without organising appropriate relays to take over the logical continuation in the form of investment.

Regarding the projects in the road transport sector we would formulate the following recommendations:

- To clarify the phase II issue with the World Bank and to announce Tacis decision to the partner organisation;
- To check from time to time that the frontier between the three projects for which Ukravtodor is likely to be partner/beneficiary in the near future is properly defined and redefined. It is unlikely that the contractors (particularly if they are competitors) will give spontaneously sufficient attention to the necessity to co-ordinate their activities.
8. **Elements of human resources and institution building**

As explained in the introduction of Part II, any regrouping of human resources and institution building programmes and projects is arbitrary. The following table, which does not correspond exactly to the “Human Resources and Development (HDR)”, sector of Tacis, gives, however, an idea of the magnitude and the diversity of the effort undertaken by Tacis in this area.

**Table II-8.1: Tacis main interventions in human resources and institution building**

<table>
<thead>
<tr>
<th>Sector and type of intervention</th>
<th>Action Programme</th>
<th>No. of projects</th>
<th>MECU[^40]</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy Advice (not sector specific)</strong></td>
<td></td>
<td></td>
<td>6,300</td>
</tr>
<tr>
<td>EES</td>
<td>1997, 1998</td>
<td>1</td>
<td>1,500</td>
</tr>
<tr>
<td>UEP/LAC + extension</td>
<td>1995, 1998</td>
<td>1</td>
<td>4,800</td>
</tr>
<tr>
<td><strong>Employment, training/retraining, Social Security</strong></td>
<td></td>
<td></td>
<td>27,177</td>
</tr>
<tr>
<td>Employment and training/re-training</td>
<td></td>
<td>4</td>
<td>15,840</td>
</tr>
<tr>
<td>International Business School Kyiv</td>
<td></td>
<td>1991</td>
<td>1</td>
</tr>
<tr>
<td>International Management Institute Kyiv</td>
<td></td>
<td>1991</td>
<td>1</td>
</tr>
<tr>
<td>Ukraine employment services</td>
<td></td>
<td>1992</td>
<td>1</td>
</tr>
<tr>
<td>Re-training of ex-military officers</td>
<td></td>
<td>1992</td>
<td>1</td>
</tr>
<tr>
<td>Support to the Lviv Management Institute</td>
<td></td>
<td>1996</td>
<td>1</td>
</tr>
<tr>
<td>Development of active employment policy</td>
<td></td>
<td>1996</td>
<td>1</td>
</tr>
<tr>
<td>Social security</td>
<td></td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Working group on social impact Chernobyl</td>
<td></td>
<td>1994</td>
<td>1</td>
</tr>
<tr>
<td>Addressing social impact of privatisation restructuring</td>
<td></td>
<td>1994</td>
<td>1</td>
</tr>
<tr>
<td>Assistance to reinforce and improve social prestations</td>
<td></td>
<td>1995</td>
<td>1</td>
</tr>
<tr>
<td>Assistance to housing sector</td>
<td></td>
<td>1996</td>
<td>1</td>
</tr>
<tr>
<td>Support to social policy development and financing</td>
<td></td>
<td>1997</td>
<td>1</td>
</tr>
<tr>
<td>Social consequences of coal restructuring Donetsk</td>
<td></td>
<td>1997</td>
<td>1</td>
</tr>
<tr>
<td><strong>Education/Tempus</strong></td>
<td></td>
<td></td>
<td>20,976</td>
</tr>
<tr>
<td>Strengthening of the higher education accreditation system</td>
<td></td>
<td>1995</td>
<td>1</td>
</tr>
<tr>
<td>Tempus (MECU 0.5 in 93, between 3.3 and 4.8 every subsequent year)</td>
<td>1993 to 98</td>
<td>&gt;65</td>
<td>20,476</td>
</tr>
<tr>
<td><strong>Public Administration Reform</strong></td>
<td></td>
<td></td>
<td>7,806</td>
</tr>
<tr>
<td>Reform of Public Administration</td>
<td></td>
<td>1992</td>
<td>1</td>
</tr>
<tr>
<td>Training of Tax Administration staff</td>
<td></td>
<td>1992</td>
<td>1</td>
</tr>
<tr>
<td>Public Administration Reform (Civil Servants)</td>
<td></td>
<td>1996</td>
<td>1</td>
</tr>
<tr>
<td>Support to the reform of key government ministries</td>
<td></td>
<td>1998</td>
<td>1</td>
</tr>
<tr>
<td>Plus various EES projects</td>
<td></td>
<td>95-96</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>62,259</td>
</tr>
</tbody>
</table>

Although, because of the diversity of the sector, this section cannot be organised exactly as the previous ones, we will try to follow as much as possible the same general structure when analysing the main blocks of projects.

[^40]: In general, budgetary figures refer to contracted budgets for projects under Action programmes prior to 1996, and to commitments for 1996 and subsequent years.
8.1 POLICY ADVICE

8.1.1 The reform to support, the problem to address

Policy advice is much needed in Ukraine. Since 1991 the country faced unprecedented challenges: the creation of the institutions of a sovereign country, the conduct of the economic reform, the need to completely redesign sector policies in such crucial sectors as energy or agriculture, the willingness to adopt institutions compatible with those of the EU, etc. There has therefore been an strong demand for information, for assistance in identifying the right policies and for assistance with drafting the legislation which would institutionalise the new policy directions.

In response there has been an abundant supply from all donors and advice has been offered by a variety of institutions and consultants. These efforts have generally not been very successful in terms of their impact on the reform process. In Ukraine, there is a severe limitation in terms of capacity to formulate policies, and more generally to analyse the situation and to organise a rational debate on the policy orientations leading to implementable policies. This contributes to explain the slow progress in reform. Besides the short experience with democratic institutions and market mechanisms, the difficulty comes from a fragmented decision process, a lack of consensus within the society on the main directions of the reform, an absence of tradition of co-ordination of policy preparation and a lack of analytical instruments. These factors compound, and result in, difficulties to formulate good questions and then to make an appropriate use of the answers.

8.1.2 Overview of Tacis intervention

Right since the beginning of its operation in Ukraine Tacis has been conscious of the acute needs and has tried to address them in different ways:

- several project TORs require from the consultants that they use their project to draw policy lessons, point to regulation and policies which need adaptations or improvements in the specific field of their operations;
- a facility, the PAP implemented by the EES, has been developed specifically to provide quick answers to policy advice demands;
- facilities and special small programmes have been used to develop the sort of basic material which is required to formulate analysis and on which to base policy advice and to transfer this capacity to a recipient: the statistical facility, the Ukrainian Economic Trends, etc.;
- sector programmes have been developed to define policy strategies: agriculture, energy saving programmes, etc.;
- specific policy and legal advice instruments directed to top level decision makers have been set up: UEPLAC.

8.1.3 Relevance and appropriateness

Tacis’s policy advice specific instruments, EES, UEPLAC, have been designed primarily to respond to demands. Thus, to mobilise the best possible expertise in a wide variety of areas in order to be able to provide state of the art information and opinion on most issues associated with the reform process.

This raises a fundamental problem met with all policy advice projects. In a country where it is notorious that the political willingness and the technical capacity to reform are fragile, the provision of non-

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41 Table II-8.1 provides only data for UEPLAC and EES (since 1997). Substantial policy advice components have also been included in several sector main frame programmes.
42 See Part II, section 9.1
43 An analysis of this project is provided in Project Evaluation Note 7 of Volume II.
prescriptive policy advice on a purely demand led basis has limited chances to lead to successful policy changes. In such a limiting environment, policy advice can successfully induce reforms only if:

- it is consistent and prescriptive;
- there is a recipient i.e. an institutional and technical capability to accommodate the policy advice and to transform it into policy formulation and eventually to implement the reform policy. Otherwise, it remains largely an academic exercise;
- the donor has some leverage on the beneficiary to put forward the implementation of recommendations.

The application of the demand lead principle does not permit prescriptive policy advice, this is clearly stated in the ToRs of the UEPLAC for instance, and, moreover, the EC does not have the leverage provided by large loans to which it could attach policy conditionalities as do the IFIs.

The main weakness in the policy advice projects of Tacis is that they do not guarantee consistency in the provision of policy advice, and they are insufficiently designed to develop the institutional and technical capacity of the beneficiary.

In this evaluation two types of inconsistencies have been observed in the policy advice projects:

(i°) inconsistency resulting from the unwillingness of the EC to formulate clear policies or policy principles to recommend in particular sectors. The ToRs never do so but would refer to expressions like “best practices in European member states”. In areas where there is no unanimity among experts and when the technical DGs of the Commission do not provide indications on the policies they want Tacis to recommend this leads to inconsistent advice which undermines the reform process rather than strengthening it. A good example is the large Support to Agricultural Policy Formulation programme, which is a recognised failure. This comes in part from management and implementation problems, but above all because no consistent policy advice could be provided due to the lack of consistent vision of the EC on this subject. As a result each consultant group within the consortium provided its own views, often according to the “economic philosophy” prevailing in its own country. The different beneficiaries received different options which they could either use to defend their own particular views or to discredit the EC project recommendations on ground of its internal contradictions;

(ii°) inconsistencies resulting from assigning the same policy formulation objectives to different projects without guarantee that their conclusions will converge. This is the case, for example, in the transport sector where Tacis is financing the formulation of the World Bank policy with an EES project whose results may contradict those of a mainframe Tacis sector project also aiming at defining, and implementing, the transport sector policy.

Major policy advice projects have been launched without paying enough attention to the institutional capacity of the recipient. Again, a striking example is the large Support to Agricultural Policy Formulation project which was fully implemented before the question of the existence of a capacity to co-ordinate agricultural policy formulation was raised, and before another project was hastily built with other donors to create an Inter-Ministerial Commission for Agricultural policy co-ordination44.

It is frequent for the ToRs or the project synopsis of Tacis policy advice project to refer to the twin objective of direct delivery of policy advice, on the one hand, and, on the other hand, institution building to raise the capability to formulate and implement policies. In fact these two objectives are difficult to achieve simultaneously with the same project design. Delivery of policy advice must be addressed to the decision makers, capacity building concerns their assistants and administration. Delivery of policy advice...

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44 See Part II, section 9.1 on EES.
advice is better done by good foreign professionals working in a performing material and human environment; capacity building may require not so highly qualified professionals but experts who can transfer their know how to the departments and services in the administration by doing the job with them and accompanying them to the point where they can do it alone. Delivery of policy advice requires a short term input, capacity building is a long term effort.

The design of Tacis policy advice projects is generally oriented to direct delivery rather than capacity building: UEPLAC, UET are implemented through new institution, not as projects to assist the intermediate levels of the administration normally responsible for preparing legislation, organising and analysing economic data, etc.; although they are in practice continuously rolled over, they are designed as projects the limited duration of which would not permit durable institution building. This seems more justifiable in the area of legal advice where one can argue that the primary focus should be on delivering good legislation. When it comes to economic policy advice it is more questionable and the lack of focus of the Tacis projects on raising the technical capability to organise economic information, to analyse economic situation, to assess alternative policies and to formulate implementable policies is likely to result in the loss of impact and sustainability of its extremely valuable efforts on the policy advice provision side.

Finally, little complementarity is observed between policy advice projects and technical projects which should lead to improving the policy formulation capacity in Ukraine. For example, a quantity of sector projects include in their ToRs provisions for collecting and improving statistical data without organising any co-operation with the Ukrainian Economic Trends and even less with the local institutions likely to improve the statistical data. The use of the statistical facility in this regards is also unclear.

8.1.4 Effectiveness and efficiency

The choice of partner organisation is a major factor of effectiveness, even more with policy advice projects than with others:

- As already mentioned in most cases the choice of partner organisation has been consistent with the objective of policy advice provision, more than with that of raising the capability to prepare policies;
- When the fundamental question of raising the institutional capability to co-ordinate policies was addressed it has been done hastily and with instruments designed for policy advice delivery (EES project to support the Secretariat of Minister Tihipko and EES project to support the IMCA)45.

Another issue relates to an insufficient flexibility in the mobilisation of experts. In general the policy advice projects are designed to answer ranges of potential questions and therefore are staffed with very good generalists, often long term, complemented by short term experts identified in the ToRs and proposed by the contractor in his proposal. This fails to solve the problem of dealing with very focused expertise not anticipated at the time of the ToRs, which could be mobilised at short notice for a limited period and a specific input. The constraint was met with UEPLAC, but also in the WTO Accession project of EES, showing that even this instrument, precisely meant to mobilise short term expertise on specific issues, cannot cope with this problem. This reduced the effectiveness of these projects. Addressing the problem would require the possibility to include within a mainframe contract as UEPLAC or within a single EES intervention a sort of framework contract or to work with specialised experts on the basis of retained fees.

45 See Part II, section 9.1.
8.1.5 Impact and sustainability

The main policy advice projects, UEPLAC, UET, several legal projects under EES have delivered excellent products corresponding to the best professional practices. Sector policy advice projects, and policy advice components of mainframe projects suffer from a lack of consistency which reduces their impact. In addition to the examples of the previous paragraphs one can refer to the Employment Service Project\textsuperscript{46}. It recommended solutions to finance the Employment Fund which were later perceived as violating the macro-economic constraints on the public finance and nearly had the World Bank pressing the government to stop the initiatives developed under the project.

Overall the option to deliver policy advice in response to demand rather than focusing also (certainly not exclusively) on capacity building should be questioned.

\textsuperscript{46} An analysis of this project is provided in Project Evaluation Note 6-1 of Volume II.
### 8.1.6 Main conclusions and evaluation

#### Table II-8.2: Main conclusions regarding evaluation of Tacis intervention in policy advice

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy advice</td>
<td>1. Was the reform to support well identified? Insufficiently identified? Need for policy advice was well identified from the earliest stages of Tacis intervention.</td>
<td>1. Were the expected outputs effectively delivered? Not always, in particular, very specialised policy advice on technical issues (central banking law, certain aspects of WTO accession) proved difficult to offer. No consistent advice was offered in the agricultural sector.</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary (Training, transfer of know how, etc..)? Impact has been by several factors: •the lack of a clear and consistent policy message conveyed by the EC advisors; •the lack of a “recipient” capable to take the policy advice and to bring it to transform into operational policy measures; •the asymmetrical development of analytical capability and institution building in such areas as improvement of statistical data, identification of key factors at the root of economic problems, has failed to improve the recipient’s capacity to benefit from policy advice, and therefore policy advice from having an impact.</td>
<td>Policy advice had been and remains a high profile activity of Tacis in Ukraine; it is essential for the visibility and the credibility of the EC action, and it responds to real problems. It is, however, regrettable that it is not more used by the EC itself in programming activities. The professional quality was generally good. The major problems are: •the lack of policy view of the EC; •the focus on delivery rather than on institution building; •the lack of appropriateness and sustainability.</td>
</tr>
<tr>
<td></td>
<td>2. EU Intervention strategy</td>
<td>2. Did the intervention meet its targets in terms of timeliness and delays? In general yes.</td>
<td>3. Has the PO or the beneficiary taken ownership of the output of the intervention? So far it has been the major problem of policy advice, that it was not internalised and had little impact on decision. Legal advice has been more effective, at least in terms of drafted legislation.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2a. Was there a clear one?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Initially the strategy has been twofold, (i°) to provide quick answers to pressing demand with specific facilities, (ii°) to include policy advice dimension in most large sector mainframes programmes; progressively legal advice took an important dimension and a large specific programme was designed to this end (UEPLAC).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2b. Was it likely to stimulate &amp; support the reform? In so far as it is non prescriptive, policy advice can influence reform if the recipient is willing to do so, a condition that cannot be guaranteed.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2c. Had EU intervention the critical mass necessary to have an impact on the reform? Probably not, because the “delivery” dimension was privileged against the “institution building” one (see impact).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2d. If not was EU intervention well co-ordinated with other donors? Initially no, essentially because other donors have a prescriptive approach. In the recent years co-ordination has increased and improved, but sometimes at the cost of EC losing the intellectual lead (see analysis of EES in part II, section 9.2)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table II-8.2 (Continued): Main conclusions regarding evaluation of Tacis intervention in policy advice

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Was the partner organisation well chosen? For EES operations which responds to demand the question is irrelevant; for mainframe programmes, such as UEPLAC and sector mainframes programmes, the partners have been well chosen from the policy advice point of view, but not for institution building.</td>
<td>4. Was the effectiveness of the project hampered by rigidities in implementation procedures or divergences of views between various actors on the EC side? Lack of consistent view on such issues as agricultural sector policy has undoubtedly limited the effectiveness of policy advice in this sector.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8.1.7 Recommendations

- The evolution of policy advice should follow that of the programming approach of the EC. From purely demand driven it should be increasingly “dialogue driven” and should be used to define better intervention strategy at national and sector programme levels.

- Policy advice should be complemented with capacity building, recognising that the two are complementary but not necessarily achieved with the same tools, nor with the same partners.

- The Ukrainian Economic Trends should gradually move from a high profile intellectual contribution of experts (even if these include local experts) external to the Ukrainian institutions who should normally develop economic data analysis, towards a transfer of capacity to this administration and their greater involvement the production of UET. Failure to do so will mean that UET (which is a valuable tool, especially for donor agencies), will not be taken over by the local institutions and cease to exist when EC support will not be available.

- The question of the sustainability or the phasing out of UEPLAC should be addressed.

- Programmes of the size and scope of UEPLAC should be developed with upfront recognition that a one year intervention does not make sense and need to be continued.

8.2 Sector/Thematic Programme: Employment

8.2.1 The Reform to support

The social consequences of the economic transition have dramatic impacts in many areas: health care, housing, labour market and social dialogue, and social protection (both social insurance - amongst others, health, pensions, unemployment - and social assistance). The problems in the sector are immense and growing. The inherited legal and institutional system is poorly suited to address them in the context of a democratic society and a market economy.

The labour market is probably a domain where the Government approach requires the most dramatic change when compared to the former system: unemployment did not exist officially, administrative mechanisms based on political rather than economic criteria were used to balance supply and demand of labour and education and training were part of these mechanisms, labour relations were not framed in a market context, labour legislation was not concerned by competitiveness or work incentives. These already difficult problems were compounded by the eruption of substantial unemployment associated with the restructuring of the economy. These issues are difficult to tackle in all western economies and the more so in transition countries. They are also essential since one of the main obstacles to restructuring the economy is the fear of creating untractable problems in terms of employment and social welfare.

8.2.2 Overview of Tacis intervention

The Government recognised these difficulties and, faced with a new problem, asked for assistance. Little analysis was made of the problems and no overall policy, with its linkages to macro-economic policies, was designed. The government identified two areas where the necessity to re-train, re-orientate professionally and re-employ large numbers of people loomed large, (i°) Industry/Commerce, and, (ii°) the armed services, and requested specific assistance to address them.
Tacis accordingly elaborated technical assistance projects and devoted substantial resources to these two areas through two large projects. 1.5 MECU was devoted to Industrial/Commercial Employment; and 7.36 MECU to the resettlement of redundant officers.

8.2.3 Relevance and appropriateness

Both projects were designed as stand alone actions, and did not relate to each other, although they were both doing essentially the same tasks: professional re-orientation (vocational guidance), training and re-training and job placement. Tacis Post Privatisation and SME programmes also had several similar objectives and included training programmes which had many common features, but there was no co-ordination of terms of reference or implementation. With the facilities Tempus and Policy Advice co-ordination proved better and useful complementary assistance was provided through these channels.

Employment services for industry/commerce

The project was a response to a demand issued in 1991 of by Ministry of Labour to start a programme of assistance and re-qualification of the unemployed population through the establishment of a nationwide network of Employment Centres working in close collaboration with the existing Centres for Professional Orientation. A project was included in the 1992 AP and when implementation started in February 1994 it was found that no-one in the Ministry remembered it, and that the problem of open unemployment was not recognised by the Ukrainian authorities. The magnitude of the problem was only revealed by an Income Survey conducted by the project 18 months after it began. Only then did the Ministry accept the urgent need for a policy and strategy to deal with the problem.

This illustrates two issues:

- The Ministry of Labour perceived that there was need to re-qualify the manpower in the transition context and it tried to address the problem by building on an existing infrastructure of Employment and Professional Orientation Centres that had originally been created for dealing with the conditions of a centrally planned economy. Tacis accepted the Ministry’s definition of the problem, and did not attempt an in-depth analysis of it. (This would probably have required a separate project on its own, and thus would have delayed the start of the main project even further). The problem was forgotten in the time of the initiation of the project because, on the one hand, there was an increased perception of the irrelevance of rehabilitating old structures designed for an administered labour market and, on the other hand, there was no perception of the acuteness and the new nature of the unemployment problem;
- The contractors could use the project to show the beneficiaries the changing nature of the problems but then the project design proved inadequate and the project’s duration was much longer, and the range of activities much broader, than anticipated. This was partly due to an inappropriate design, as well as to the changing environment which raised new problems and priorities.

The Ministry of Labour was the logical PO but the project was designed without involvement of other donors and without taking into account its macro-economic dimension, which would raise an issue when the World Bank considered, at a later stage, that the financing mechanisms created in this particular context were violating other public finance objectives.
The armed services

As a consequence of the restructuring of the army after independence a Presidential Decree of 1993 charged the *State Committee for the Social Protection of the Military Officers and their Families under the Cabinet of Ministers (SC)* with the duty of elaborating, in collaboration with the Ministry of Labour, a National Programme (NP) for the re-training and social re-orientation of officers to be laid off. Tacis assistance was requested and a project was included in the 1993 AP.

The Tacis identification mission prepared the TOR for a single large project which aimed at providing substantial assistance closely linking training, employment and the creation of new employment opportunities through the setting up of a temporary network of institutes to train and re-settle 8000 officers.

The project’s design was inadequate to deal with all the problems that emerged as it progressed. A National Co-ordination Centre (NCC) was established to serve as a PO and became fully operational only two and a half years after the beginning of the project. The regional offices of the SC did not have sufficient resources, and so a separate network of Regional Centres for Employment had to be created. More emphasis had to be put on re-employment.

This project was also designed as a stand alone project. It was not linked with the Ministry of Labour’s Employment Service project. During the course of the project it co-operated with the SOROS Renaissance Foundation and USAID NewBizNet which have their own programmes for training officers, but not employment promotion.

8.2.4 Effectiveness/efficiency

*Employment services for industry/commerce*

As indicated the project experienced initial difficulties, in particular due to the fact that both the Ministry of Labour and the National Employment Centre had forgotten about it and the request made 18 months earlier. The contractor had to convince, with a very relevant and well conducted survey, the PO of the importance of the problem of unemployment and the need to address it. A very good inception report permitted the contractor to establish his credibility and from then a work programme was established and conducted with full support and acceptance of the Ministry.

The government decided in January 1996, according to World Bank advice, to channel payments to the Employment Fund through the State Budget and place it under the control of the Ministry of Finance. This threatened to jeopardise the development of the new National Employment Service since it revealed a lack of consideration for the macro-economic and public finance constraints.

This situation has now been rectified. A new law has been adopted by Parliament regarding employer and employee contributions to the Employment Fund. A new scheme will be introduced in 1999.

The two most important results achieved were:

- The Ukrainian authorities accepted the real existence of unemployment, and the need for a policy and strategy to deal with the problem;
- The Ministry of Labour now has a concrete Employment Policy, a common strategy, and Vocational Guidance and Training Programmes at the Regional and Local Levels, and knows how to implement them.
The following factors were vitally important to achieve these changes:

- High degree of professionalism on the part of the contractor;
- Excellent working relationships between all parties - the Ministry, other concerned authorities, and the contractor’s personnel, in particular the Team Leader;
- Good, and flexible management of the project by all the parties concerned, in a rapidly changing environment.

The armed services

Given its extremely cumbersome institutional design the project was slow to deliver effective results. It was intended that management would be done by a steering committee including representatives of:

- The Ukrainian authorities, in particular: the SC and NCC;
- EC Tacis in Brussels, EC Delegation and Co-ordination Unit in Kyiv;
- The Contractors.

When the project started in April 1995, however, the NCC of the SC only existed on paper, and no budget had been allocated to it. Other factors, further hindered progress, such as:

- Insufficient counterpart staff (numbers and qualifications);
- Insufficient involvement, co-ordination and inter-action with the key ministries;
- Inadequate support in granting access to, and in collecting, information;
- Lack of office space and working facilities for project personnel;
- Decisions delayed because of elections;
- Lack of commitment by the chairman of the SC.

The project team, without the support of the SC, selected Ukrainian training institutes which could provide training services. It selected teachers from these institutes, from 10 regions, and trained them in various aspects of management, training methodology and English language. In August 1996 (over a year after the start of the project), it was decided to re-organise the SC, and set up the National Co-ordinating Council under the Cabinet of Ministers. The NCC was awarded financial support from the budget, and set up branches in 10 regions.

In order to increase the regional reach of the training and re-employment structures it was decided to set up Regional Training and Employment Centres (later called Regional Centres for Employment - RCEs) and to launch tenders to regional companies interested in participating, on a financially self-sustainable basis, in the development of these RCEs. This strategy was implemented in 1997. There were problems with the tenders, which caused considerable delay. The Task Manager in Brussels had to intervene at this point to expedite progress.

RCEs have now been set up in all the 11 regions. Staff have been recruited and trained. Five pilot groups of officers have been trained. Each RCE has trained 150 officers (i.e. a total of 1650 officers had started being trained at the time of the evaluation mission). They are now starting on the Employment Promotion component.

A new 200 hour basic course in Management has been designed to give the officers an understanding of the Market Economy type business.
The effectiveness and efficiency of this scheme can be assessed on two grounds:

- In terms of speed of response to the problem, the project is clearly very ineffective with an extremely long time spent to build an heavy structure and start training trainers; the objective of re-training 8000 officers is far from being achieved;
- In terms of cost efficiency, if the financial viability of the RCEs can be achieved and 8 000 officers be eventually trained for 7.5 MECU, this would be reasonable by Western standards, the more so if the structure put in place will be able to deliver additional services.

### 8.2.5 Impact/sustainability

#### Employment services for industry/commerce

In the earlier system, the match between supply and demand in the labour market was organised administratively by central planning. Job training was organised to serve the needs of the system not to give the worker a chance to realise his potentialities. In the new circumstances, requiring a flexible labour market, a new approach to: job and knowledge and skill analysis, recruiting, selecting, orientation/counselling and training of employees, was essential. This massive changeover in approach has been successfully achieved and the authorities in the Ministry of Labour have adapted. Practical training programmes in 7 professional categories have been developed and have achieved substantial successes.

A new law on Employment Insurance has been passed by the Parliament, which has made the Employment Fund financially independent and strengthened the development of the Employment Service. The thinking of the Parliamentary Deputies is now very positive towards the fund.

The programme should therefore be self-sustaining.

#### The armed services

So far the impact is minimal since the essential of the effort has been devoted to the elaboration of an institutional framework to deliver the training. Impact will in fact depend on the sustainability of this framework at the end of Tacis current support; this implies that the State Committee and the NCC continue to benefit from Government funding and that the RCEs become financially self-sustainable, a situation which has a very low probability to occur.
### 8.2.6 Main conclusions

**Table II-8.3: Main conclusions regarding evaluation of Tacis intervention in employment training/retraining**

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment training/retraining</td>
<td>1. Was the reform to support well identified? The problem was ill perceived by the Ukrainians and Tacis did not improve the analysis and replace the problem in the framework of a comprehensive labour policy. 2. EU intervention strategy 2a. Was there a clear one? Not for the civilian project; yes for the military project. 2b. Was it likely to stimulate and support the reform? Civilian project probably not; military project could potentially play a substantial role by training 8 000 people. 2c. Had the EU intervention the critical mass necessary to have an impact on the reform? Certainly in the case of the training of military staff. 2d. Was the EU intervention well co-ordinated with other donors? Co-ordination with other donors was very poor, this proved counterproductive with the World Bank. Co-ordination with other Tacis projects was also poor resulting in duplication of efforts and inconsistencies. 3. Was the PO well chosen? Yes in the case of the civilian project. For the military project it was too bureaucratic. 4. Were the ToRs still adapted to the actual situation at the starting time of the project? No because they had probably never been quite adapted to the problem.</td>
<td>1. Were the expected outputs effectively delivered? Employment services for industry/commerce: yes, poor design was corrected by adequate contractor’s intervention and redirection of the project. Officers: so far there is not yet effective delivery. 2. Did the intervention meet its targets in terms of timeliness and delays? Considerable delays in both projects were due to inadequate design, changing circumstances and unclear involvement of partners. 3. Has the PO or the beneficiary taken ownership of the output of the intervention? In the case of the civilian project the Ministry of Labour has taken full ownership of the project. The military project has experienced considerable difficulties and a State Committee may not be the ideal structure to “appropriate” a project.</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary. Civil employment: professional know how has been transferred and the capacity to organise employment services set up. Military: training of trainers and provision of courses. 2. Has there been an impact on the process of reform such as: 2a. Change in ways of doing things, work attitudes, etc. Yes in the case of civilian project; the attitude to unemployment has been adapted. 2b. Change in decision process? It is not possible to answer the question. 2c. Acceleration of the reform process? Yes (civilian project) with the development of a capacity of the state to cope with new problems 3. Has there been an impact in terms of restructuring the economy? Yes (civilian project) insofar as workers have effectively been recycled and redirected. 4. Has there been a replication of a successful project? No 5. What is the chance for continuation at the end of Tacis support? Ministry of Labour has taken full ownership of employment services. Military project sustainability is doubtful.</td>
<td>The employment services project offers an interesting example of ill designed intervention which was rather successful in terms of impact because the contractor could demonstrate the acuteness of the problem and the need for an answer; and he found a partner organisation who accepted to be convinced. The poor design, however, and the lack of taking into consideration the comprehensive dimension of the employment problem reduced effectiveness and the impact. Insufficient co-ordination across Tacis projects and with other donors is another weakness of this project. The military re-training project compounds the defects of the civilian one. The questionable intervention strategy based on the construction of an ambitious and cumbersome institution, of doubtful viability, has resulted in minimal impact.</td>
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</tbody>
</table>
8.2.7 **Recommendations**

This is a particularly difficult area and we recommend:

- To rationalise the approach in this area by organising a better complementarity and avoiding duplication among different Tacis projects including an employment training or redeployment component.
- If Tacis is to further invest in this type of action it should conduct studies, maybe under an EES, to gain a deeper understanding of the functioning of the labour market in Ukraine and the main obstacles to re-employment, which are not directly linked with economic activity, such as qualification mismatch, but also regulatory and institutional constraints, existence of disincentives, etc. The costs of addressing them should be assessed. The literature on the relative advantages of support to job search alone, and excluding retraining should be taken into account.

8.3 **EDUCATION/TEMPUS**

8.3.1 **Reform to support**

Since the breaking apart of the Soviet Union, the education sector in Ukraine is confronted with two major compounding issues:

- The transformation of the central planning system inherited from the Soviet Union and no longer in line with the requirements of the national development nor the aspirations of the population; higher education still maintains a number of former characteristics such as a proliferation of specialised institutions with few links among them, separation between research and education, course producing skills which are not any more appropriate to the evolution of the labour market, insufficient or inadequate development in several important areas (economics, management, social sciences), etc.; professional education is poorly treated and inadapted to the needs of the economy;

- Decreasing public resources to the sector with all the negative consequences resulting from teachers being insufficiently paid and with considerable delays and institutions not having the resources to maintain their premises and equipment; in addition the stabilisation and adjustment policies impose or will impose further severe reductions of expenses and dramatic cuts in the staff numbers.

Long term actions involving important efforts and resources are required to restructure this sector which is vital for the sustainability of the whole reform process of the economy. The difficulty of the task to address, the lack of resources and the conservatism of the establishment are important limitations.

8.3.2 **Overview of Tacis intervention**

Tacis has provided extensive support to higher education (see table II-8.1), mainly through a large number of Tempus projectscumulating to MECU 20 (including 1998 commitments). The only major project has been the strengthening of Accreditation System in Higher Education, designed to promote adherence to adequate standards by the numerous higher education institutions established since independence as well as the adaptation of those originally created under the former regime.

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47 Most Tempus projects are Joint European Projects (JEP). These are projects whose overall aim is to contribute to the long-term development and renewal of the partner countries' higher education. In the shorter-term, they aim to create centres disseminating good practice to other institutions in the partner countries.
8.3.3 Relevance and appropriateness

The intervention of Tacis took place in a context characterised by the absence of clear Government reform strategy or development policies in the sector. It focused on higher education, essentially through the Tempus programme.

In the prevailing context these options are understandable. Significant intervention in the primary and secondary education sectors would require a comprehensive reform strategy and resources of a magnitude which by far exceeds those of standard Tacis projects. It is therefore logical that in absence of a large programme involving the Government and the major donors Tacis did not enter these areas. Currently there are discussions with USAID to conduct a joint project to introduce courses of civism and civic education in the schools. This is certainly an important step in building the civil society and should be encouraged but it cannot replace a major reform.

In the higher education sector Tempus, with its main limitations which are highlighted in a recent evaluation of the programme\(^48\), had characteristics which made possible rapid and widely spread interventions reaching directly the universities thanks to the mechanisms of selection of project proposals\(^49\) which permit to by-pass the administrative hierarchy of the ministries. But while Tempus can be very important in “opening windows”, putting together the higher education communities from East and West, introducing new curricula, supporting better management practices in the university, it cannot, precisely because it by passes the central mechanisms of the higher education sector, engineer a comprehensive reform of this sector.

The only single major intervention of Tacis to strengthen the accreditation system deals with a useful technical issue. This is probably as far, or even further than one can go in this area, as suggested by the lack of appropriation on the Ukrainian side.

Given the importance of the professional education and the weakness of the Ukrainian system one could question the low involvement of Tacis in this field. It largely results from a lack of relevant demands and from an option of Tacis to intervene more in the area of management training and retraining of workers.

8.3.4 Effectiveness and efficiency

The main conclusion of the FTP evaluation are that Tempus has been more successful in developing new courses than in projects aiming at improving management of universities. This is in part due to an insufficient life time of projects and the difficulty to reform the hierarchical structure of NIS universities.

The project aiming at strengthening the accreditation system was technically successful but the resources initially allocated were insufficient and the project required extension both in time and budget. On the beneficiary (Ministry of Education) side there was not enough commitment and an insufficient recognition of the need and the ways to organise the accreditation system; as a consequence the project did not lead to significant application on the Ukrainian side. The recommendations and technical analysis of the project are of good quality and remain valid.

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\(^49\) Tempus adopts a “bottom-up” approach, meaning that projects competing for Tempus resources are selected among proposals initiated and developed by EU and NIS universities themselves, within a framework of country priorities negotiated with the country authorities and within the limits of the Programme objectives, instructions and guidelines. (See FTP, TEMPUS in the NIS…, op.cit)
8.3.5 Impact and sustainability

As may be understood from the above, impact of these efforts on the reform of the higher education sector or the requirements of the national human resources have been limited. Within the institutions which benefited from Tempus project, on the other hand, the situation is much more positive and substantial results seem to have been achieved in terms of new courses and teaching methods, awareness of the importance of decentralisation, management and development of own income raising capacity, and in terms of co-operation with EU universities. This is somewhat tuned down by the fact that the same universities (especially the departments with good English speaking staff) tend to take the best advantages of the programme, and with the same partners.
8.3.6 Main conclusions

Table II-8.4: Main conclusions regarding evaluation of Tacis intervention in education

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
<th>3. Impact and sustainability</th>
<th>Overall conclusions and observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tempus and education projects in the Action Programmes</td>
<td>1. Was the reform to support well identified? The weaknesses of the education system are well perceived but there is no comprehensive reform strategy</td>
<td>1. Were the expected outputs effectively delivered? Tempus: in terms of new courses, management programmes, in general yes. In terms of dissemination, success is limited. Accreditation: all envisaged outputs could not be achieved due to lack of resources</td>
<td>1. Has there been an impact on the partner organisation and/or the beneficiary. For Tempus at institutional level, yes. Otherwise, the answer is rather negative.</td>
<td>Since 1993 Tacis has devoted relatively large resources (equivalent to roughly 10-12% of the Action Programmes) to higher education through TEMPUS. This has permitted a visible presence of EC assistance and to reach a segment of the population (higher education workers) which is potentially important in the transformation of the society.</td>
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<tr>
<td></td>
<td>2a. EU intervention strategy Was there a clear one? Yes, to focus on higher education, mostly with Tempus.</td>
<td>2. Did the intervention meet its targets in terms of timeliness and delays? See above.</td>
<td>2. Has there been an impact on the process of reform such as: 2a. Change in ways of doing things, work attitudes, etc.</td>
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<td></td>
<td>2b. Was it likely to stimulate and support the reform? No but it has not been designed to do so. The objective was more to “open the windows” and to work at higher education institutions level.</td>
<td>3. Has the PO or the beneficiary taken ownership of the output of the intervention? The answer is generally positive for the institutions who benefited from Tempus projects; otherwise it is rather negative.</td>
<td>2b. Change in decision process? It proved very difficult to break into the higher education institution hierarchy.</td>
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<td></td>
<td>2c. Had the EU intervention the critical mass necessary to have an impact on the reform? Only at the margin.</td>
<td>3. Impact and sustainability</td>
<td>2c. Acceleration of the reform process? Impact, if any, is very limited.</td>
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<td></td>
<td>2d. Was the EU intervention well co-ordinated with other donors?: Tempus projects have been used to support other Tacis project or to fit in actions co-ordinated with other donors.</td>
<td></td>
<td>3. Has there been an impact in terms of restructuring the economy? No significant impact in addressing the new requirements of the country in terms of human resources.</td>
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<td></td>
<td>3. Was the PO well chosen? Yes.</td>
<td></td>
<td>4. Has there been a replication of a successful project? Tempus is still too young in Ukraine and many projects are still half way.</td>
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<td></td>
<td>4. Were the ToRs still adapted to the actual situation at the starting time of the project? Not relevant for Tempus projects. Yes for the higher education accreditation project.</td>
<td></td>
<td>5. What is the chance for continuation at the end of Tacis support? Sustainability of efforts at institution level will depend on the progress of the sector reform and the access to financial resources. The latter may be somewhat improved for institutions having benefited from Tempus projects.</td>
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Evaluation of EC Country Programme in Ukraine
8.3.7 Recommendations

There is no reason to repeat here the recommendations of the FTP evaluation of Tempus, which are all valid.

Additional recommendations resulting from the present evaluation are:

• Tacis should not intervene more heavily in the sector without a strategic approach which can only result from global consistent donor effort and the negotiation of a comprehensive reform strategy endorsed by the Government;
• Limited actions focused on civism and civic education are important and consistent with the goals of Tacis; continuation of explorations of possibilities with other donors in this area is commendable;
• More attention should be given to professional education, maybe through some redirection of Tempus priorities.

8.4 Public Administration Reform

8.4.1 Reform to support

At the outbreak of the Soviet Union, Ukraine had no tradition of own public administration. With the institution of an independent nation it built up its administrative structures but they are essentially an inheritance of the former soviet ones and constitute currently a major constraint in the conduct of the reforms and the management of the economic transition. The fundamental issue is to transform an administration established to control state assets and to intervene in economic activity, into a regulatory body operating in the context of a democracy and a market economy.

The major categories of problems to address are:

• The organisation of the executive functions of the state, i.e. the identification of clear duties and responsibilities of the various ministries and state institutions, and the mechanisms and procedures for their proper functioning. The actual situation is far from optimal in Ukraine which a proliferation of fragmented ministries, a layer of ministers without clear attributions, and in general a lack of mechanisms to operate the necessary trade-offs in order to make sure that Government action is consistent and co-ordinated;
• The division of responsibilities between local and central levels; in Ukraine centralisation remains strong and the local administrations (oblasts and municipalities) have limited responsibilities and resources, but they are extremely reluctant to give up any power they have, or to any change in general. The rules are somewhat ad hoc and sometimes the object of bi-lateral “treaties” between central government and local entities;
• The legal status of the civil servants and the rules governing their responsibilities and ensuring their accountability;
• The functional improvement of the ministries and executive institutions.

Such reform requires strong political commitments, substantial financial resources and technical capabilities. In Ukraine, although the need for public administration reform has been reaffirmed by successive governments, the directions of the reform and the political commitment are not always clear nor very firm. Financial resources are scarce, and technical capabilities are limited, the more so that under the former system the best people were attracted by Moscow and many have remained in Russia.
8.4.2 Overview of Tacis intervention

Tacis has given considerable importance to the public administration reform and three major projects have been, or are being, prepared in this area, together with more focused actions and complementary EES programmes (see table II-8.1).

8.4.3 Relevance and appropriateness

The 1992 project addressed all the dimensions mentioned in the former paragraphs, but the partner organisation was the Academy of Public Administration, a body whose functions are exclusively in the area of training. The project had extremely ambitious goals and the administration reform component had to be cancelled to focus on civil service training. The project has been designed as a stand alone intervention with little co-ordination with other donors.

The second project, from the 1996 AP and just starting, has been prepared in close co-operation with the donors, using the leverage offered by a large public administration reform World Bank loan ($600 mln) to which conditionalities are attached, among others regarding the number of ministries and the reduction in the number of civil servants. A clear division of labour among donors has been agreed upon and co-ordination mechanisms have been set up. The World Bank is taking the lead of the overall reform and it is agreed among the donors and with the government that its main objectives must be to move from a control and interventionist administration to a regulatory one. The EC, given its former involvement and its interests, is taking the lead on the civil service reform and training, but it also has responsibilities in functional analysis of some ministries.

This second EC project has therefore a double objective:

1. To reform the civil service (public function): legal status, promotion system, etc. The beneficiary is the General Directorate of Public Function, under the Cabinet of Ministers;

2. The creation of a national system of training of state servants (in the line of the first project with the Academy of Public Administration); this project develops actions undertaken under the first project and extends to the regional level. The beneficiaries are the same: General Directorate of Public Function, the local Academy of Public Function in Kharkiv and the Centre for Training of Civil Servants of Khemlisky. The latter two beneficiaries have been selected to permit to test two different types of training providers.

The third project, not yet started, under the AP 1998, consists in providing support to key ministries. It is designed and will be conducted in co-operation with the World Bank; it is kept rather open to permit the TA to assist where necessary the Government in meeting the conditionalities of the Public Administration Loan. A pool of experts and trainers is available to intervene in the restructuring of ministries. Project can also be used for expertise and specific training. The partner organisation is the so-called “Kravchuk Commission”, an inter-ministerial commission set up after the latest presidential elections and chaired by former President Kravchuk, to co-ordinate public administration reform. It is sometimes viewed as a lip service to the donors, and in any case the vulnerability of the commission, which can be dismantled at any moment, but survived the latest parliamentary elections, could endanger the project.
8.4.4 Effectiveness/efficiency

Only the first public administration project can be analysed from this point of view, the others being just starting, or not yet started. The effectiveness of this project in delivering its expected outputs was marred by an inadequate and overambitious design, poor communications and bad relations between the Commission, the contractor and the partner organisation, and poor management by the contractor. This led to delays and interruption, and even in the field of training not all expected outputs of the project could be delivered. On the other hand, good quality products have been left by the contractor in the form of a handbook “Master of Public Administration” of the Academy. It is distributed and used by the Academy with tangible results. It is also distributed to all regional centres (25), in Ukrainian. Recently it has been exported to Moldavia, where it is used for training.

8.4.5 Impact and sustainability

Here again it can be question only of the first project. The fact that it has been cut from its all reform components and restricted to training severely limited its potential impact. Apart from the excellent training material which has been left the results are fragile and the end of project assessment report of the Monitoring Team points to several factors which undermine the sustainability: the trainers educated under the project need further training and, as they are not permanent teachers, their participation to future activities risks to be occasional since it depends on decisions regarding their remuneration and the recognition that their involvement is part of their professional activities, the willingness of the Academy (Partner Organisation) to integrate outputs of this project and its capacity to provide assistance to the regional centre need to be strengthened.
### 8.4.6 Main conclusions

**Table II-8.5: Main conclusions regarding evaluation of Tacis intervention in public administration reform**

<table>
<thead>
<tr>
<th>Area of Tacis activity</th>
<th>1. Relevance and appropriateness</th>
<th>2. Effectiveness/ownership</th>
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<th>Overall conclusions and observations</th>
</tr>
</thead>
</table>
| Support to public administration reform | 1. Was the reform to support well identified?  
The crucial importance of the problem is well perceived but the reform willingness and the contents of the reform are unclear on the Ukrainian side. Considerable progress in identifying the reform directions since a policy dialogue is established on the subject under the umbrella of the large World Bank loan and with all significant donors.  
2. EU intervention strategy  
2a. Was there a clear one? Yes, it focused on technical issues (training, legal aspects)  
2b. Was it likely to stimulate and support the reform? It was limited by the absence of real political backup, hence the importance to combine actions with donors who can have a leverage.  
2c. Had the EU intervention the critical mass necessary to have an impact on the reform? No.  
2d. Was the EU intervention well co-ordinated with other donors? Not in the beginning, over the last years support to public administration reform has become one of the best co-ordinated area.  
3. Was the PO well chosen? Not for the first project (had exclusively training responsibility), yes for the second project, the answer is unclear for the third project.  
4. Were the ToRs still adapted to the actual situation at the starting time of the project? | (Concerns only first public administration reform project)  
1. Were the expected outputs effectively delivered? Not all  
2. Did the intervention meet its targets in terms of timeliness and delays? No, due to overambitious design and poor communications between parties involved.  
3. Has the PO or the beneficiary taken ownership of the output of the intervention? Not really | (Concerns only first public administration reform project)  
1. Has there been an impact on the partner organisation and/or the beneficiary.  
So far the impact is limited.  
2. Has there been an impact on the process of reform such as:  
2a. Change in ways of doing things, work attitudes, etc.  
Yes, a training manual for civil servants is currently used.  
2b. Change in decision process? If any change, it is very limited.  
2c. Acceleration of the reform process? Impact is very limited.  
3. Has there been an impact in terms of restructuring the economy? No significant impact in redesigning the public administration to adapt it to its new responsibilities; in any case the important projects are just starting or not yet started so that no impact can yet be expected.  
4. Has there been a replication of a successful project? No but a continuation and a deepening of work undertaken under the first project.  
5. What is the chance for continuation at the end of Tacis support? Training manuals will probably continue to be used, for the rest the projects are in a too early stage. | • A delicate sector because of the high political sensitivity  
• Technical intervention possible but not very useful without full fledged reform  
• Considerable improvement since articulation on WB loan |
| In general yes. |   |   |
8.4.7 Recommendations

- The importance of the issues at stake and the fact that this is an indispensable reform for any Government in Ukraine justify the continued involvement of Tacis in this sector;

- Past experience has shown that in this delicate area an intervention limited to the technical aspects of the reform cannot deliver properly its output and is unlikely to have any significant impact. Therefore it is recommended to continue to work in the context of comprehensive policy dialogue led by the major donor who can have a leverage given the size of its intervention and the possibility to attach conditionalities to it. In this context the EU strategy to focus on training and to keep a margin of manoeuvre to provide specific technical assistance to assist other donors in points which may be critical for the reform is commendable;

- Particular attention should be paid to the selection of the partner organisation, its capacity to take ownership of the reform and to have the necessary leadership is essential and should be the object of negotiated agreements.
9. **Facilities**

9.1 **Generalities**

The word “Facilities” covers a variety of instruments which may exhibit very different characteristics. Moreover, the number of facilities has been evolving considerably overtime through a combination of creation, mergers and suppression.

Although no general taxonomy can offer a satisfactory account of this situation, the following distinction may provide some useful clarification:

- Facilities which are in fact specific programmes pursuing specific objectives but managed outside the national programme on a cross-country basis for historical or other reasons. To this group would belong Tempus, Lien, the City Twinning facility, the former Democracy facility, now a specific programme;
- Small programmes. This is a variety of specialised instruments available, mostly to complement or support larger mainframe programmes with specialised inputs, to conduct specific interventions which would not justify a mainframe programme but deserve to be answered, to permit quick intervention on limited questions, to give the possibility of a limited action to prepare or complement a larger project, etc. Under this heterogeneous group we would currently find the Policy Advice Programme, the European Senior Service Network, Financial Support Framework, the group of facilities supporting international standards and commitments (customs, statistics, intellectual property, etc.), Bistro, the Small Scale Technical Assistance (SSTA), etc. This group has changed over time and the tendency over the last years is to consolidate and to rationalise it;
- Facilities meant to develop the potential of Tacis as a catalyst for investment or capital funding: the Bangkok facility and the Joint Venture Programme (called sometimes JOP, sometimes JVP).

The facilities differ from the mainframe TACIS programmes in a number of aspects:

- Management. Since the facilities have been developed as instrument for the whole NIS and Mongolia, they are generally managed by a horizontal service (unit C6) in Tacis. Their implementation is organised through a specialised agency, or a management unit or specific technical assistance service which is contracted out. The Bistro and SSTA facilities are managed by the Delegations;
- Financial resources. The financing is included in the general Tacis budget, but two different systems coexist. For some facilities the financial resources are set upfront at Tacis level, outside the national programmes. This system, adopted from the interstate programmes, used to be the main one for all facilities. Under that system the distribution of the budgeted resources among the beneficiary countries can result from an ex ante allocation or, more often, from the application of the principle “first come first serve”, which then creates some competition among the countries. Since 1996 this system has been largely replaced and currently the budget of most facilities, the Bangkok facility being one exception, is formed out of the contributions earmarked in each National Action Programme for that facility. The facility budget is in that sense entirely demand driven, or at least driven by the result of the dialogue between the EC and each Tacis country.

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50 For instance, the European Training Foundation (ETF), which depends on DG XXII, in Torino for TEMPUS.
51 For instance, the European Expertise Service (EES) for the Policy Advice Programme (PAP), specific management units for LIEN, JVP, etc.
Due to limitation of time resources, the evaluation mission has concentrated on four facilities: the PAP (Policy Advice Programme), Bangkok, JVP, PIP (Productivity Initiative Programme) and Bistro.

9.2 **POLICY ADVICE PROGRAMME (PAP)**

9.2.1 **Objective and short description of the facility**

The objective of the facility is to provide on short notice (6 to 8 weeks between request and expert mobilisation) experts to respond to policy advice demands from policy makers and institutions of the recipient countries. The facility is developed for limited interventions (usually between 150 000 and 300 000 ECU, involving 1 to 4 experts for projects extending on average over 6 to 8 months and with an average input in the range of 150 days of expertise). Since 1996 the PAP regroups four former policy and legal advice facilities (Policy and Legal Advice Programme, LPAP; Legal Services-Law Reform Programme, LSLR; Financial Framework Task Force, FFTF; Environmental Support Facility, ESF).

9.2.2 **Procedures**

The Policy Advice Programme is implemented through the European Expertise Service (EES). This is contracted out to a consortium\(^{52}\) responsible for managing three offices in Brussels, Moscow and Kyiv\(^{53}\). Requests for policy advice from high level decision bodies in Ukraine can be addressed to the Commission in Brussels, the Delegation in Kyiv, the Co-ordination Unit in Kyiv, the EES office in Kyiv. They are channelled to the TM of unit C6 responsible for the facility for approval. In case of approval, the consultants who manage the EES are responsible for drafting the ToRs, preparing an action plan and a time table, organising delivery of outputs and reporting, providing a team of experts and sending a full proposal\(^{54}\) to the TM of the facility, who must approve and eventually suggest modifications. The consultant is then responsible for implementing the project along the agreed terms of reference. Any alteration to the agreed proposal requires explicit prior approval of the Commission.

9.2.3 **Budget and utilisation in Ukraine**

The budget of the facility is made of the contributions from the National Action Programmes. For Ukraine there has been no demand in 1996, and 1 MECU in 1997:

In addition Ukraine could use parts of a MECU 12 cross-country allocation under the 1995 Interstate Programme.

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\(^{52}\) The current contract has been attributed to Bossard Consultants in December 1996, for a period of 2 years, and has been extended in November 1997 to accommodate the management of additional funding allocated to the PAP under 1996 and 1997 National Action Programmes.

\(^{53}\) The Moscow office is the PMU for Russia, Kyiv is responsible for Ukraine, Moldova and Belarus, Brussels for the other countries and the overall implementation of the project.

\(^{54}\) This whole work is done by the project PMUs in Kyiv and Brussels according to a division of labour which is the responsibility of the consultant.
At the time of the visit of the evaluation team there were 9 EES projects approved, for a total of 1.4 MECU or in progress, and 12 applications had been rejected:

- Three projects on legal issues:

  *Early Warning System*, 218 KECU to analyse compliance of local international laws with EU regulations.
  *Harmonisation of Legislation on Safety and Hygiene of Labour*, 150 KECU.
  *Production Sharing Agreement*, 56 KECU, to finalise assistance to draft the law on production sharing agreements.

  In the case of these projects, and certainly the most recent ones, it is not clear why they have not been dealt with through the UEPLAC facility.

- Three projects relating to support of institutional reforms:

  *Transport Sector Review of Ukraine*, 263 KECU. This project is connected to the World Bank initiative of preparing a Transport Sector Review and it has been agreed between the Delegation and the World Bank that the latter would select the experts to conduct the study. Meanwhile a mainframe Tacis programme for Institutional Support to the Ministry of Transport has been awarded in September 1997 and it specifies that the inception phase, which is just being released, contains a review of the transport sector and the design of a transport policy. The consultants in charge, who are obliged by contract to proceed with the implementation of their project, fear that the EES financed World Bank study might come up with different policy recommendations creating confusion and difficulties within the Ministry of Transport.

  *Advisor to the Central Bank*, 150 KECU, to finance the advisor to the National Bank of Ukraine who co-ordinates the reform of the banking sector, in particular the implementation of the International Accounting Standards;

  *Institutional Reform of Employment and Labour Market Analysis*, 150 KECU;

- One project to *Advice on WTO Accession*, 300 KECU. This project, which could also have been conducted through the specific legal department of UEPLAC, had a problem which is similar to a problem also met with UEPLAC. The beneficiary wanted a sort of framework contract permitting him to have recourse, successively, to very short term but highly specialised and diverse expertise to analyse particular topics linked with WTO accession. The PAP financed a long term expert coming one week per month, which does meet the demand;

- Two projects to support the organisation of offices of key ministries for the co-ordination of reforms.

  *Support to the Office of the Vice Prime Minister Mr. Tihipko*, KECU 150. This project is currently a major source of difficulty and misunderstanding. The Constitution of Ukraine gives the Vice Prime Minister the responsibility of co-ordinating economic reform. Within the Ukrainian institutional context, the Vice Prime Minister did not have a specific office to assist him in this function and there was no experience on how to organise such an office. The demand of assistance to Tacis came from the former Vice Prime Minister Mr. Pensanik, replaced by Mr. Tihipko who reexpressed the request. The assistance required was related to office and staff management and organisation rather than policy advice. It was felt important, both by the Ukrainians and by the Delegation, that this key new institution, potentially a major engine in the

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55 Source: EES Financial Indicators Ukraine 18/12/97 and EES Current Indicators Ukraine updated 19/11/1997. Both documents refer apparently to the year 1997 and may include projects from earlier budgets.

56 This objective problem is complicated by a psychological one: the consortium which has been attributed the main transport project is BCEOM, who is also part of the Bossard consortium managing the EES and whose proposed experts for the policy advice project, Transport Sector Review of Ukraine, have been discarded to permit the World Bank to design its own consultants.
formulation and monitoring of economic reform in Ukraine, receive assistance on its organisation. After various strategies had been considered, including to make this project a major mainframe programme, it was decided to conduct it through the EES. The terms of reference have been established in close co-operation with the International Centre for Policy Studies (ICPS) a local non-profit, donor funded, organisation and the staff of the Vice Prime Minister. They emphasise the need for managerial and organisational support rather than policy advice. The appointment of the EES consultant, a high profile specialist on budgetary questions, and his first interventions have led to a growing dissatisfaction of the beneficiaries. The beneficiaries did not expect a high profile policy adviser but someone who would guide them and help them with the effective organisation of the work of the office. The EU expert, as evident from his mission reports, views his role as one of identifying what does not work and providing advice on what should be done in terms of institutional reforms to make it work better. Frustration has been accumulating on both sides, the Ukrainians feeling that the assistance budget should not be used to tell them that no one is answering the phone in the Vice-Prime Minister Office, which they know perfectly well, but waiting for assistance with the implementation of practical solutions, and the consultant who views his role as one of providing high level advice on reorganisation of the higher spheres of the decision making bodies and wishing to offer assistance towards the public administration and Budget directions of the economic reform programme. At the time of the visit of the evaluation mission, the situation was confused because, on the one hand, the beneficiaries did not know what to do to redirect the project to its initial goals which they consider crucial, and, on the other hand, the EES consider that their arm had been twisted by the Delegation to force them to finance this project which was not a policy advice request.

Agricultural Policy Advice, KECU 265. This project is meant to support the organisation of the Interdepartmental Commission of Co-ordinating Agricultural Policy in co-operation with other donors. The previous large project on agricultural policy formulation produced some positive results in its last phase. The project highlighted the need to develop policy co-ordination and formulation capability to organise such evident, but missing, things as consultations between the Ministry of Finance and the Ministry of Agriculture when establishing the budget of the latter. The Ukrainians wanted the support to be continued, but no more as an extension of the previous project which would have involved the whole consortium. A new project to develop an Inter-Ministerial Committee for Agricultural reform (IMCA) was therefore financed through the EES. The project developed in co-operation with other donors and a division of responsibility was agreed: USAID with World Bank would lead the policy formulation support, Tacis would support the organisation and management of the Secretariat, British Know How Fund would provide legal advice, and other donors would support ad hoc working groups. At moments difficulties have occurred between the donors and the Delegation has put major pressure on EES to release quickly a PAP to finance the EC component and avoid any delay in the implementation of IMCA by consolidating immediately the assistance. The EES project finances in fact another Secretariat of Minister Tihipko, who as Vice Prime Minister for Economic Reform heads the IMCA. This illustrates two problems, one is a lack of co-ordinated strategy leading to some duplication, the other, to which the first is related, is the temptation to accumulate projects on the few actors who appear as really reform oriented, with the risk of duplication and overweighs of projects.

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57 Policy Formulation Advisory and Support Service, contract n° 94-0907.00, MECU 5.4.
58 The project has been actively promoted by the EU Delegation who appointed Prof. Bostyn, former team leader in the mainstream Agricultural Policy Formulation project who has been recruited under the EES facility to prepare the present project.
9.2.4 Main issues and conclusions

In Ukraine the PAP facility is raising a number of questions the most important ones relate to a progressive change in its objectives. Initially the facility was meant to offer quick responses/expertise on demands for specific policy advice by decision makers. But the Kyiv Delegation, did not always resist the temptation to consider the EES budget as its own. As a consequence the PAP has been used, at least partly, as an instrument to complement the National Action Programme and to assist particular institutional structures, which were viewed as supportive of reform process. This has been accentuated with the introduction of the UEPLAC project, the policy advice instrument under the National Action Programme. Most of the problems which have been observed and will be briefly enumerated are dominated by this issue:

- Delays. The objective of the PAP is to reduce to a maximum of 8 weeks the delay between request and provision of expertise. For the 9 projects currently operating in Ukraine, the average delay between ToR drafting and planned project start is 13.6 weeks\(^9\), with a minimum of 4 weeks and a maximum of 22 weeks. These delays are of course significantly shorter than the normal project cycle of Tacis but they exceed by 70% the assigned objective. Deviations, in both directions, from the 8 weeks target are largely explained by the interventions of the Delegation. The shorter delay observed was the result of a very strong pressure of the Delegation to push a project (support to the IMCA) in view of the importance to lock it to avoid endangering the cooperation between the donors but at the cost of not making the best use of the EES resources. The longest delay (22 weeks) is with the Early Warning System project and is due to debates regarding possible interference’s with UEPLAC functioning;

- Unclear division of attributions between UEPLAC and EES for what concerns legal advice projects. It is interesting to note that both instruments fail to meet the need for limited but very focused expertise;

- Interference of the Delegation in the selection process. The problem has been evoked above. It has lead to the financing by EES of projects which are only loosely related to policy advice (the Secretariat of Minister Tihipko, the financing of the organisational part of IMCA whose policy advice component is financed by other donors). The danger is that this use of the facility, while giving the Delegation a greater flexibility in supporting aspects and actors of the reform it views important, creates at the same time problems linked to the fact that it is used outside its foreseen range. A typical example of this is the financing of a new structure, the IMCA\(^6\), with an essentially transient and non recurrent instrument;

- The chain of command is complicated when projects are not, as intended, response to specific policy advice requests. The expert recruited under the facility responds to the contractor, the representatives of the Bossard consortium, who themselves respond to the task manager of the C6 unit, who normally makes sure that the policy advice request is favourably appreciated by the task manager responsible for the sector in the geographical unit and that this TM is informed of the advice which has been provided. When a project results from an initiative of or is actively followed by the Delegation, this complex chain of command tends to be short-circuited. The expert recruited by EES would then report directly to the sector specialist at the Delegation, who is generally the only one in the chain who has a clear view of the problem and the local situation, but who might be inclined to see the problem only through the eyes of the Delegation. However, every decision involving an approbation, and there are many, must be channelled through EES services and approved by the facility TM. In case of different views on the use and the objectives of the facility, this can lead to major delays and potential inefficiencies;

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\(^9\) Unfortunately we have no data on the delay between the request and its approval leading to drafting the ToRs.

\(^6\) It should be noted that the IMCA is an entirely ad hoc institution contrarily to the office of the Vice Prime Minister responsible for Economic Reform whose function is inscribed in the Constitution.
The merger of very different policy and legal advice facilities and the number of projects, combined with the interventions of different actors, have resulted in the contractor of the EES being essentially the manager of a framework contract to provide specific experts and ToRs at short notice. In parallel, the number of projects makes it impossible for the task manager of the facility to always have an input of substance. His or her time is largely absorbed with administrative issues, the more so that the facility requires that any decision receive his/her prior approval.

9.3 **Bangkok**

9.3.1 **Objective and short description of the facility**

The Bangkok facility has been set up in 1991 with EBRD in order to provide EC (Phare and Tacis) funding to help prepare and implement EBRD investment projects. Two separate Bangkok Facility Funds (one for Tacis, one Phare) are funded by the EC.

9.3.2 **Procedures**

EBRD can use the Tacis Bangkok Fund to finance (i) framework contracts (generally multi-country) for project identification and general studies and, (ii) TA associated with eligible investment projects.

It is the choice of EBRD to decide how much they spend on framework contracts up to the pre-defined ceiling. The list of eligible projects is established by EBRD, without input of the EC, and then submitted to the Commission (unit C6 who circulates it through the geographical units) who can discard projects which do not comply with the Bangkok facility eligibility criteria, but cannot add any. The criteria are currently two:

- duplication with projects in the National Action Programmes;
- relevance of the projects; this criteria is not always effective, because many projects are only very roughly described at this stage.

A third selection criterion relates to the position of the project in the EBRD project cycle. In order to minimise the number of Bangkok supported projects not leading to effective investment projects are only selected projects which have passed the concept clearance stage. At this stage the project idea has been cleared by EBRD management and a staff team constituted to start preparing the project loan.

The application of these three criteria usually leads to the elimination by Tacis of about a third of the technical assistance projects initially proposed by EBRD.

Once the list of eligible projects is agreed it is EBRD who, according to its investment cycle and priorities, mobilises and manages the technical assistance associated with a particular investment project. There are more eligible projects than resources and the facility is used on the basis of the first come first served principle. It is entirely the EBRD bankers’ initiative to decide, according to their investment possibilities, which projects they will call first, or not at all.

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61 The task manager for the PAP facility in unit C6 can have up to 50 projects to manage.

62 There are four stages: exploration (the project is still an idea), concept clearance (there is a concept note describing the project and identifying the main components of the loan), approval by the board, effective implementation.
Two major changes have been introduced in the procedures in 1996. The first relates to the introduction of a Multi-annual Indicative Programme63 providing a multi-annual strategy umbrella to the annual programmes. Given the first-come first-served principle and the market driven nature of EBRD projects, this Multi-annual Programme has turned out to be of limited operational relevance. The second is the replacement of ex-ante by ex-post controls64.

So far the Bangkok TA projects in Ukraine have not been covered by the Tacis monitoring system. In Russia, however, the management of regional venture funds has been monitored at the request of the Task Manager.

9.3.3 Budget and utilisation in Ukraine

The Budget of the Bangkok facility is established outside the National Action Programmes for the whole CIS. It has been set to 15 MECU in 1993 and 20 MECU every subsequent year. It has been raised to 23 MECU for the budget 1998.

The following table provides some order of magnitude of the share of Ukraine in the budget years 1996 and 1997. The total allocation is 20 MECU each year, and a priori there is no allocation for any particular country. For the whole Tacis, eligible projects are about twice the available budget, and 16%-17% of eligible projects by value is in Ukraine (6.15 and 7.29 MECU). Commitments correspond to projects already earmarked for using TA from Bangkok. In 1996 this corresponds largely to the disbursements, in 1997 it is still a provisional figures and some commitments may never materialise, as the project investigation may be abandoned for a number of reasons. Finally it should be noted that these figures do not include the framework contracts.

<table>
<thead>
<tr>
<th>MECU</th>
<th>All Tacis</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangkok Facility Budget</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Eligible projects</td>
<td>38.8</td>
<td>41.9</td>
</tr>
<tr>
<td>Commitments</td>
<td>17.50</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: EBRD Technical Co-operation Funds Programme Ukraine, Cumulative Commitments as of March 1998.

The allocation across countries has been more or less equitably balanced. The sector allocation has been biased towards the Regional Venture Funds. These funds, which are set up for 10 years, are huge multi-year consumers of TA, and are located in majority in Russia.

The sector distribution of the Bangkok facility in Ukraine is illustrated in the following table.

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Privatisation</td>
<td>1.82</td>
<td>0.08</td>
<td>0.34</td>
<td>0.32</td>
<td>1.48</td>
<td></td>
<td>2.68</td>
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<td>0.12</td>
<td></td>
<td>0.86</td>
<td></td>
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<tr>
<td>Agribusiness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.50</td>
<td>0.94</td>
<td>0.94</td>
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<tr>
<td>Transport</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.44</td>
<td>0.44</td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td></td>
<td></td>
<td>0.62</td>
<td>1.44</td>
<td></td>
<td>2.07</td>
</tr>
<tr>
<td>Environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.60</td>
<td>0.50</td>
<td>0.90</td>
</tr>
<tr>
<td>Total</td>
<td>2.28</td>
<td>0.81</td>
<td>0.91</td>
<td>0.00</td>
<td>1.33</td>
<td>3.93</td>
<td>9.26</td>
</tr>
</tbody>
</table>

Source: EBRD Technical Co-operation Funds Programme Ukraine, Cumulative Commitments as of March 1998

63 The first one is for 1996-1999.

64 Under the ex-ante control system, prior authorisation was required at every step of the use of the Facility (ToRs, mobilisation of experts, etc.). Under the ex-post control, provided a project is eligible, EBRD can mobilise the resources and organise the TA according to the Financing Memorandum signed with the EC but is subject to ex-post control of compliance with EC regulations and procedures. A Review of the EBRD Bangkok Facility, by Moore Stephens, in July 1997, shows that generally this compliance is very satisfactory.
The Energy and the financial sectors have been the most intensive users. It must be noted that, while contributing, through the Bangkok facility, to finance an EBRD technical assistance to the banks which had been selected to distribute an EBRD loan earmarked for SMEs, Tacis also developed its own assistance programme to these banks (EBAS), thus strengthening the EBRD strategy with its own interventions.

9.3.4 Main issues and conclusions

The major positive aspects of the Bankgok facility are:

- A good articulation between TA and investment; this instrument avoids the frustration of having technical assistance identifying good projects and preparing good feasibility studies leading nowhere because there is no investment relay. The Bangkok facility, insofar as the condition of additionality\(^{65}\) is met, is a catalyst for investment. Computations by unit C6 show a ratio of EBRD investment/Tacis technical assistance evolving between 11 and 15 from 1992 to 1995, and a stable ratio of total investment to Tacis TA. Although the first of these ratios cannot be strictly identified to an investment multiplier, it shows a real leverage of the Bankgok facility. The other ratio is also interesting since it shows that, overall, the TA cost is about 5% of total investment cost; this is a non negligible contribution since it is financed with a grant; nonetheless, the ratio is biased upwards, because it includes TA costs not leading to any investment;
- A very short project cycle. Funding provided by EC is committed after 4 months and contracted after 8 months.

These advantages are paid by a loss of control of Tacis on the use of the funds once they finance eligible projects and comply with EU procedures. This lack of control is particularly regrettable in two areas:

- The relation of a project to the EC intervention strategy or to the National Action Programme is not a criterion to make a project eligible, but only to exclude it. Another source of frustration comes when a good Tacis project has taken place, which would justify to be relayed with investment or capital funding, but does not necessarily lead to a project of interest to the EBRD (or another IFI) given its lending priorities and constraints.

The existence of a multi-annual indicative programme highlighting broad strategies is only a partial answer to the problem. It is very likely that an agreement for a more significant say of Tacis in the selection of projects, and a firmer commitment of EBRD to consider Tacis supported projects for funding, could be achieved only if the Tacis contribution were more important\(^{66}\);
- The policy of EBRD with Regional Venture Funds had the result to mobilise Tacis resources in areas where the “multiplier” effect is the weakest\(^{67}\) and with de facto long term commitments, due to the 10 years life of these funds, contrary to the annual budgeting of the facility. Finally, they have biased the allocation of funds in favour of Russia. Tacis has agreed with EBRD (at the technical level) to reduce progressively the EC components in those funds starting with 1998. Funding of the Regional Venture Funds under the 1998 Bangkok Facility is conditional on formalising this agreement.

\(^{65}\) i.e. that it finances TA that could not be financed otherwise and would increase the cost of the loan in proportions that would prevent a good investment project to be financed.

\(^{66}\) As an example of this possibility, a joint environment programme is under preparation with the World Bank under which Tacis would provide substantial assistance with feasibility studies and preparatory TA subject to the conditional commitment of the World Bank to consider for a bank loan the promising projects which would come out of the feasibility studies. Tacis and the World Bank will have equal project identification and feasibility study approval rights.

\(^{67}\) A typical RVF of 30MECU would absorb 20MECU TA over its 10 years.
Our overall evaluation of the Bangkok facility is that it is potentially a good way to articulate technical assistance and investment. For Tacis, whose resources are limited, but are offered as grants, it makes more sense to support investment by providing the major investors with the TA which reduces the overall investment cost and facilitates preparation and implementation of investments that otherwise might not take place, rather than intervening directly with co-financing.

9.4 **JOINT VENTURE PROGRAMME (JOP OR JVP)**

9.4.1 **Objective and short description of the facility**

This is a EU programme to facilitate the creation and development of Joint Ventures in the countries of Central and Eastern Europe (Phare) and the New Independent States (Tacis). JOP is divided into 4 facilities; so far only facilities 1° and 2° have been used in Tacis countries:

1° **Preliminary Information**: EuroJOP Data. This facility aims at disseminating information related to investments in the CEEC and NIS countries, through EuroJOP Data. It will pay for part of the costs of events (e.g. seminars) designed to promote the creation of enterprises in the CEEC and NIS countries. It represents 3-4% of the total expenditure;

2° **Pre-feasibility and Feasibility Studies**: The aim of this facility is to finance part of the eligible preparatory costs of the creation or development of a joint venture, i.e. pre-feasibility and feasibility studies. This represents 70% of the total expenditure. They are popular with consultants, EU SMEs and their banks;

3° **Equity Participation & Guarantee**: The EC will bear part of the risk of a project by participating in its financing, provided that a Financial Intermediary participates in the equity or medium- to long-term financing. The maximum equity participation is 20%, and 50% must be co-financing. This is not popular with SME banks because of the complicated administrative procedures and small amounts implied, usually no more than 6% of total project cost. It represents 10% of the total expenditure;

4° **Technical Assistance - Transfer of Know-How**: The aim of this facility is to strengthen eligible projects by co-financing training activities, technical assistance and transfer of know-how. This can cover up to 50% of training costs, up to a maximum of 200 000 ECU. This represents about 10 - 15% of the total expenditure.

Beneficiaries: Any company with 2 or more partners is considered a Joint Venture. At least one partner must be from a EU country, and at least one must be based in one of the CEEC or NIS countries. The process is driven by the EU partner and its bank.

9.4.2 **Procedures**

Applications are made by SMEs of the European Union through registered financial intermediaries which provide the link between the beneficiaries and the EC. The management of the programme has been delegated by DGIA to DGII, as the internal financial engineer of EU.

9.4.3 **Budget and utilisation in Ukraine**

The 1996 Action Programme has allocated 1.25 MECU, the 1997 Action programme 1 MECU for the facility. Due to lengthy procedures, the facility has not yet been effective in Ukraine but it is expected to be soon.

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68 SMEs must be undergoing production activities; traders are excluded.
9.4.4 Main issues and conclusions

This facility could be a fundamental instrument to prolong and complement technical assistance with other means. For the moment, when institution building and technical assistance projects, like BCCs and SMEDAS, directed to enterprises successfully come to an end, there is a feeling of frustration due to the lack of relay to overcome the major constraint the SMEs face, i.e. the access to financial resources.

Since JOP has been introduced under Phare and replicated without alteration for Tacis, the lessons from a recent evaluation of JOP under Phare are informative. Overall the evaluation was poor and as a result, facility 3 (equity participation or guarantee) was closed down. Changes were made in the other facilities. PHARE is now designing a new business support programme. In TACIS there has been a big growth in demand for JOP over the last year for information on doing business with Russia. Over 100 feasibility studies have been done in Russia, but not one single joint venture has emerged.

The main problems faced by this facility are:

- The facility is perceived not attractive by the Tacis countries. Since the initiative comes from EU enterprises but the budget has to be allocated out of the National Action Programme there is a risk that an allocated budget remains unused;
- The equity investment component is not attractive for the SMEs and the IFIs. The fraction of potential funding by the EC is too small and the procedures too complicated so that if the project is good, alternative financing for this share can be found more easily;
- The financial institutions selected to channel it are all commercial banks, rather than financial intermediaries dealing with investment and development finance. It is noteworthy that in Phare the only institutions dealing successfully with facility 3 has been the Danish “European Investment Development Fund”. Here again little promotion is done by the manager of the facility DGII whose constituency is the EU and not the NIS where it lacks experience;
- Training done under facility 4 is generally channelled through external consultants while it would be much better if it were done by staff members consultants of the EU investing firm;
- The focus on joint ventures is too narrow and a wider concept of support which could also cover production co-operation agreement would come much closer to reality and meet higher demand.

Tacis needs a new concept of SME or business support programme\(^69\) and thinking within the EU\(^70\) is to continue to use JOP as long as nothing else exists, but to develop progressively a new market friendly mechanism, which would provide a better distinction between the financing instruments and the assistance leading to a financial decision. The latter would involve a one stop window for SMEs, while the former would take into account the different relevant forms of investment: credit lines, guarantees, participation’s/equity. These instruments would not be limited to joint ventures but to a broader range of production deals involving EU and NIS enterprises. The initiative could come from EU or from NIS firms. The facility would continue to remain contracted through financial institutions, who would be asked to co-finance; local banks would be offered the possibility to refinance a percentage of the credits to SMEs.

The fact that JOP has so far not been used in Ukraine does not permit an evaluation. The review of this facility is, however, justified at a time where programmes creating institutions to support SMEs in Ukraine are reaching a certain maturity, which poses the problem of their sustainability. In its present form, the JOP facility is not offering the type of relay which is sought after. On the other hand, developments along the current thinking which have been evoked could provide SMEs with access to resources. Institutions like SMEDAs, developed under Tacis, could play a useful role, and be financed

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\(^69\) A consulting firm has been contracted to work on this new concept for Russia, Kazakhstan and Ukraine. It is expected that this will be available by April 1998.

\(^70\) Unit C6 of DGIA is currently exploring the possibilities described in this paragraph.
for it, in managing the one stop window and assisting European and local SMEs in using the new instruments.

9.5 **The Productivity Initiative Programme (PIP)**

The PIP facility has recently been evaluated; therefore this section is based upon the findings of that evaluation and an interview of the leader of the “Local Management Unit”.

9.5.1 **Objectives and short description of the facility**

This facility was inspired by the Second World War Marshall plan. Through a temporary transfer of NIS managers to EU, the programme intends to allow NIS managers to benefit from first hand experience on how an open market economy functions. A second objective is to establish and reinforce business links or, if there already is a joint venture to upgrade the management know-how of the joint venture.

The first beneficiary of PIP was the Federation of Russia in 1994. Ukraine became a beneficiary in 1996, and currently all NIS countries are beneficiaries.

In fact, there is no official beneficiary; beneficiaries are the NIS managers who, under the aegis of the PIP, get the opportunity to stay three months (the usual duration of the stay of NIS managers in EU) in a West European Company.

The PIP is run by the “Brussels Office” and the “Local Management Unit” in Moscow. Four local antennae are now operational in Ukraine.

9.5.2 **Procedures**

The procedure is now well established. Its main steps are as follows:

- Promotion of the programme in NIS and in EU
- Testing of candidates:
  - first step: desk-top screening on the basis of the document provided by the applicants
  - second step: language test and personality test of the level of “intelligent learner” and “change agent” during an all-day at the Assessment Centre in Moscow, where professional psychologists act as assessors. The creation in Kyiv of a second Assessment Centre is planned
  - third step: selection by the Brussels Office of the participants to a one-week preparatory seminar to be held in Moscow. Each participant shall present and discuss the “Action Plan for Change (APC)” he intends to implement in his company after his stay in Western Europe; each APC has to be approved by the top management of the Company. At this stage a matching host company has been found. Final selection of candidates is made at the end of the seminar
- Staying in Western Europe:
  - first step: an introductory one-week in Belgium, primarily used for business game.
  - second step: a ten-week on-the-job training in the host company. This training is planned and conducted entirely by the host company; it is focused on the APC. During the internship, the participant each week writes a “letter of experience” which is sent to the Programme Office and to the CEO of the parent company. Moreover, the programme arranges one week visits of CEOs; about 50% of the participants received such a visit during their internship
  - third step: concluding seminars organised in Belgium before departure.
9.5.3 *Budget and utilisation in Ukraine*

Total budget of the facility is now 5 MECU/year; this figure corresponds approximately to 20,000 ECU/participant. The 1998 budget devoted to Ukraine will be 1 MECU.

From 1994 to 1996, 490 NIS managers have been enrolled in a three-month on-the-job training programme in EU companies. As of end of March 1998, 55 Ukrainian managers have participated in the programme.

9.5.4 *Main issues and conclusions*

This programme is managed with a relatively limited overhead cost for West European experts (in contrast to many other projects); according to the LMU, 90 % of the budget is used for direct participant costs and for their local testing and preparation in Moscow.

The sustainability of the programme can be seen from the individual and the institutional (or company) level:

- on the individual level, the programme has without doubt provided a large number of managers with new visions, new knowledge and deeper understanding of the market economy;
- on the institutional level, the limitation of the programme shall be stressed. The programme selects one (sometimes two or three) employees from a company (often very large); of course, the institutional changes you can expect from an individual training programme must be limited.

It is noteworthy that the individual project cycle is in the average well under control.

The Productivity Initiative Programme is considered as a success. It is certainly one of the most transparent Tacis programme. One reason of the success is that, during the selection process, beneficiaries have to prove that they are committed to the programme.

9.6 *The Bistro Facility*

9.6.1 *Objective and short description of the facility*

This facility provides quick implementation of small projects with a brief life span; short bursts of advice to remove bottlenecks in the reform process. A Bistro project shall meet a specific set of criteria before it can be approved.

9.6.2 *Procedures*

- anybody may apply; usually it starts with a visit to the Delegation of a Western consultant accompanied with his Ukrainian partner; but Ukrainian entities (public or private) can apply themselves. Bistro is demand driven;
- applications are processed by the Delegation; an expert of the Delegation (the manager of the facility) is in charge of the procedure: for each application, he consults at the Delegation and at the Co-ordination Unit experts with the relevant technical expertise. The consultation is done with the help of short predetermined forms in order to minimise delays; each expert checks whether predetermined criteria are met;
- then the Delegation makes its proposal to Brussels. When there is a dissenting opinion between the two aforementioned experts, the dissenting opinion is transmitted to Brussels;
- Brussels makes the decision.
After a project has been approved, it is managed by the relevant expert at the Delegation; once the project is completed, the expert in charge writes a one page evaluation report. Payments are made by the manager of the facility, in ECU and/or Hryvnas. Delays are minimum.

The average length of the procedure of approval is between 3 and 5 weeks, but it can last only one week. The last budget year for which comprehensive data are available is 1996; the 1996 budget was spent in 1997. The next paragraphs focus on bistro projects in the energy sector in Ukraine.

**9.6.3 Budget and utilisation in Ukraine**

1995 total budget: 1.5 MECU:
- 162 applications
- 31 accepted.

Two projects on energy:
- International conference on "DSM". DPC (Danish).
- Promotion of modern structure development for the energy complex of the Donetsk region (MVVmbH).

1996 total budget: 1.5 MECU
- 125 applications
- 26 accepted; from September 96 until July/August 97, date at which the 96 budget was completely utilised.

Twelve projects on energy:
- Development of Energy Savings Regulation and Standards (State Committee for Energy Conservation);
- International conference on "DSM". DTI (Danish);
- Municipal energy supply enterprises – Donetsk (MVV – Germany);
- Transfer of know-how of UCPTE and Central System;
- Formulating the necessary legal and institutional requirements of the establishment and the effective operation of Ukr. Esco (Ukr. First law office);
- Profit recovery of oil products; Kremenchuk refinery;
- Inv. appraisal in the coal mining industry; IMC (UK);
- Drafting of legal provision regulating the closure of unprofitable mines (UK);
- Promotion of Energy Efficiency for the street lightning system of Kharkov (CESEN);
- Advice to Joint Ukrainian World Bank working group for the reform on the gas sector (UK);
- Support for the government of the Autonomous Republic of Crimea (Supik);
- Support of the Energy Charter Treaty ratification process (Ukrenergo management).

The objectives of these projects are very diverse: legal advice, training, energy savings, investment assessment methodology, etc.

The main reasons for refusal was: overlapping with other Tacis projects, commercial orientation of the project, inconsistency with the Tacis Indicative Program, extensive request of funds, etc.;

1997 budget: 1.5 MECU.

The 1997 budget was made available in November 1997. At the end of January 1998, 35 applications have been received by the Delegation and 11 approved by the Commission.
9.6.4 Main issues, conclusions and recommendations

This procedure is highly appreciated. Nevertheless:

- At the moment the procedure functions on the "first come, first served" basis and at the same time, according to the Delegation, all "good" projects can be financed. Therefore defining priorities is not an issue. The situation may change in the future if the number of good applications rises;
- It is noteworthy that the State Committee for Energy Conservation was the beneficiary of a project whose objective was already covered by two on-going Tacis projects;
- It is probable that Bistro projects with a strong legal components could have been financed by UEPLAC;
- Guidelines need to be improved, in order to take into account the results of experience;
- There is the risk that Brussels wants to approve each payment before it can be executed. If such procedure is implemented, it will certainly introduce long delays and Bistro will lose its attractiveness;
- Some contractors' reports (Progress, Final) leave much to be desired.

Our recommendation is that the manager of the facility pays the contractor only after the contractor’s report is approved by his technical expert, i.e. considered of “reasonably good quality”.

9.7 General conclusions on the use of facilities in Ukraine

Although each facility is specific, a few general comments can be done on their use in Ukraine:

- There is a tendency to use them in complementarity with the national programme. For instance, several Tempus projects are conceived as supportive actions for other programmes\(^7\). This is positive when projects strengthen each other, it is less so when the facilities are used as alternative sources of financing of projects which should be part of the Action Programme;
- The use of a facility in general accelerates the project cycle but reduces the control on the substance. The extreme case is the Bangkok facility, but this is also observed with other facilities. The main reasons for this are that the management mechanism complicates the chain of command (example of EES) and that the management of facilities tends to be essentially administrative due to the work load of their task managers and the numerous ex-ante controls. The correct answer to this problem is a move towards ex-post controls, as was done with the Bangkok facility.
- Facilities tend to increase the flexibility in the management of resource but, rather logically, reduce the transparency. There is therefore a balance to achieve.

\(^7\) For instance: Joint European Project (JEP) project “Establishing Social Work and Social Policy as Higher Education Disciplines in the Ukraine” at National University Kyiv-Mohyla Academy, trained trainers for the Tacis project: support to social policy and social protection. Coordination worked well. Tempus was also involved in the Military Officers Retraining projects: Dnepropetrovsk State University is involved in the two projects. Creation of Consultants Service Centre (Dnepropetrovsk State University, Odessa and Donetsk State Commercial Institute, Donetsk) funded by Tempus JEP in economics. Permitted to bring additional resources to the universities and to improve remuneration of academics. JEP projects in the field of agricultural economy are an extension of Tacis projects in agriculture.
Part III: Programming and Delivery Mechanisms of Tacis Assistance to Ukraine

This part is devoted to horizontal issues and divided in three sections. The first one reminds the principles governing Tacis assistance and, since they are not Ukraine specific and well publicised, points to a technical annex. The second section regroups the main horizontal conclusions from the evaluation. They are presented in the form of a series of cross-cutting issues relating to successive phases of the project cycle:

- Programming phase;
- Formulation, preparation and design of projects;
- Implementation and management.

The third section presents the main recommendations with regards to these horizontal issues.

1. INSTITUTIONAL SETTING AND DECISION FRAMEWORK

Programming and delivery mechanisms of Tacis assistance are not country specific but apply to all countries of the NIS and Mongolia. These mechanisms are part of an overall legal and financial framework whose main components are the “Regulations concerning the provision of assistance to economic reform and recovery in the New Independent States and Mongolia” adopted by the European Council.

The Council Regulation N° 1279/96, replacing previous regulations N° 2157/91 and 2053/93 which covered the 1991-1993 and 1994-1995 periods, lays down the principles on which the European Union offers economic assistance to the Tacis partner countries.

2. **Main Conclusions relating to Programming and Delivery Mechanisms of Tacis Assistance to Ukraine**

2.1 Cross Cutting Issues relating to Programming of EC Intervention

2.1.1 Capacity to analyse situations and policies and to assess risks

The organisation of Tacis is determined by the “demand driven principle” based on the assumption that the recipient country has a clear view of the reform it wants to undertake and can formulate consistent demands of assistance to support the policies implied by these reforms. This assumption proved quickly insufficiently verified and there has been a progressive move from a “demand led” system towards a “dialogue driven” one. The formation of the National Action Programme evolved accordingly from the provision of a sort of “project shopping list” by the Co-ordination Unit towards the negotiation of a programme the first outline of which is drafted by the EC side under the strategic umbrella of the Indicative Programme. After a number of iterations between the EC and the Ukrainian authorities, represented by the CU, it becomes a “long list” of projects which all have their merits but the sum of which exceeds the available resources. The final programme is arrived at by discarding or postponing some projects, downsizing others or trying to find alternative financing sources. It reflects the need to continue past interventions, geopolitical considerations and government priorities and sensibilities brought forward and explained by the CU. Overall it is generally admitted that the 1998 Action Programme contains about 50% projects emanating from the Ukrainian side, the others coming from the EC side.

This evolution of the intervention strategy has not been accompanied by the building up of the instruments permitting to draw the lessons of the huge experience accumulated nor by the development of a real policy formulation capacity within the services responsible for the provision of assistance to Ukraine:

- There are no systematic archives in DGIa Tacis; no building up of a “corporate memory”. The introduction of the Monitoring system has been partially addressing this but it is not fully documented nor systematically used for strategy and policy formulation purposes;
- There is no systematic analysis within DGIa of what are the macro-economic or sector policies which the EC considers it should support in priority. The EC has not developed a theoretical view on the various privatisation strategies, on the priorities among the reforms, etc.;
- In a number of areas Tacis intervenes to support the on-going government policy. There is no thorough analysis of these policies and their advantages and disadvantages compared to alternatives. For instance, in privatisation Tacis has supported in turn case-by-case privatisation in selected sectors, mass privatisation, privatisation of difficult case, case-by-case again, but without real a priori strategy view. In the employment sector projects have been launched with the objective of shaping policies but without clear directions being mentioned in the ToRs about these policies, and without comprehensive analysis of their implications on the macro-economic constraints and the public finance;

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72 For instance Interstate programmes or facilities outside the National Action Programme.
Main conclusions relating to programming and delivery mechanisms of Tacis assistance to Ukraine

In other sectors Tacis supports a consistent sector policy agreed upon with the other donors and the Government. In this case it is generally another agency who formulated the overall policy. While this is certainly not something that can be criticised, it should be noted that Tacis does not conduct its own in depth analysis before joining a leader. Two examples illustrate this. In the financial sector, Tacis first followed EBRD because it was perceived to be “the main intervenant” in the sector. When it was found that intervening at individual banks level without simultaneously working on the comprehensive reform of the financial sector was not producing the expected results, Tacis redirected its action and articulated it on the World Bank Financial Sector Adjustment Loan. These orientations and redirection result more from the perception and analysis (often of good quality) of individuals than from instructions they would receive to follow a policy encouraged or recommended by the Commission.

Another example can be found in the energy sector. EC is following the leadership of the World Bank and participates to a very consistent articulation of multi-donor assistance to the reform of the energy supply industry. However, the EC did not base this decision on an analysis of the policies at stake and there is no trace of any analysis of the critical World Bank assumption that the Ukrainians will be able to reproduce in their country in three years a reform that has not been completed in the planned time schedule of eight years in Great Britain.

The consequences of this approach are diverse:

- The fact that as a general rule the EC is not proactive in policy formulation and does not want to impose a particular model in the various areas where it intervenes results frequently from the lack of common view within the EU, i.e. the member states. Agricultural policy is a well known example but there are many other areas where it would be very difficult to agree on what the “European model” or a “European type policy” is. It is in part for this reason that, either pluri-national consortia are formed or companies of different nationalities are intervening successively in the same areas, resulting with the imposition of different EU national models (Energy, public administration) rather than in trying to analyse the model which would best fit the local problems and situation. This lack of analytical investment on the EC side, prevents a fruitful “policy dialogue” with the Ukrainian authorities and severely limits the impact of EC action on the speed and direction of reforms in Ukraine. On the other hand, it gave EU intervention a greater flexibility thanks to the absence of dogmatism which is sometimes so prevalent with other institutions. It also permitted the EU to intervene at very early stages of the reforms in many areas where others have been considering for longer periods how and in pursuit of which objectives to intervene. Some failures were inevitable but overall in terms of projects, the proportion of successful Tacis operations is probably not lower, and is certainly not perceived so by the beneficiaries, than that of other donors;
- Since Tacis is not perceived as an instrument to support policies, ministries do not come to Tacis for asking support to their action. This reinforces the project orientation of Tacis;
- Tacis has achieved little in terms of dissemination of results and lessons learned from projects, although non negligible efforts have been devoted to this issue. This is a consequence of the absence of corporate memory of the system but also of the fact that in the absence of clear strategy it is difficult to extract general criteria against which to select the most successful interventions.

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73 Although the EBAS and Bangkok facility supports provided to the banks selected by EBRD to channel its credit lines to SMEs, effectively improved the performances of these banks, one went bankrupt, another one lost its eligibility to the scheme, and in general the size of the credits they granted was such that it hardly reached SMEs (See part II-4 of this report and Project Evaluation Note 3 in Volume II).
2.1.2 Respective roles of institutions in the design and management of programmes and projects

Various institutions are directly involved in the identification of Tacis projects, design of Indicative and Action Programmes, preparation, management and monitoring of projects: the Co-ordination Unit, the DG1A operational service in Brussels, the Monitoring Unit, the Technical Assistance section of the EC Delegation in Kyiv. Whereas responsibilities of the former institutions are relatively clearly defined, this is not the case for the TA section. This situation however did not prevent the TA section to gain access to prominent responsibilities in the whole Tacis process mainly at the expense of the DG1A operational service and of the Co-ordination Unit.

This is partly explainable by the dynamism demonstrated by the TA section whose head until December 1997, Mr Humphreys, succeeded in creating a collective spirit within the unit. This unit presently employs 10 Project Managers who are assigned to the various sectors of Tacis interventions. These Project Managers are highly motivated and dedicated to their work. Paying regular visits to the projects placed under their responsibility, they generally have a good knowledge of these projects, of their achievements and of the difficulties which they are facing. They also keep up tight relations with the Ukrainian partners of Tacis at the central level. Based on this information many Project Managers have developed some ‘vision’ of what they consider achievable and desirable, i.e. some implicit Tacis sector policy.

Relations between the TA section and Tacis project teams are reinforced by regular half-a-day meetings of all Tacis teams held on a quarterly basis in Kyiv. These meetings, which comprise a plenary session and sector-based working group meetings, give representatives of the Delegation and Project Managers the possibility to supply team leaders with background information on institutional, economic and political developments in Ukraine as well on Tacis procedures and practices. These meetings give also the project team leaders an opportunity to establish contacts between them and to exchange experiences and information.

Direct knowledge of projects and permanent contacts with players are undoubtedly an asset for the TA section vis-à-vis the DG1A operational service, whose Task Managers have few opportunities to visit projects and to meet with representatives of partner organisations and whose activity is dispersed over three different countries. Rapid and sometimes erratic changes of the institutional environment in Ukraine as well as frequent discrepancies between reality and appearances still reinforce the advantage on those who are on the spot against those who rely on second hand information. Until recently a relatively more stable staffing of the TA section, whereas DG1A operational service in Brussels was facing a high turn over of its Task Managers, further strengthened the position of the TA section. Last but not least, whereas Task Managers in Brussels have formal command on project funded through the regular Tacis programme, they have no control over the facilities and might even be unaware of actions undertaken through facilities in the sector they are in charge of. Project Managers of the TA section, on the contrary, have no direct command on financing resources, except for small size facilities such as Bistro and SSTA, but have a global view of all EC interventions in each sector and a good knowledge of the whole set of instruments available which allow them to suggest the utilisation of various financing instruments so as to complement one another.

Having precise and up-dated information on on-going projects as well as some vision of what could be done under Tacis gives the TA section strong arguments when it comes to propose new projects for inclusion in the Action Programmes. The Co-ordination Unit capability to do so, which is its major responsibility, is weakened by its lack of direct relations with the projects once they are under implementation and by its inability to develop a policy of its own.

74 In some cases Task Managers try to circumvent this difficulty through the resort to consultants who are their ‘eyes and ears’ in the field.
This growing influence of the TA section in the identification of projects, design of programmes and management of projects seems to have been well accepted by the DG1A operational service as well as by the Co-ordination Unit. It is greeted by contractors’ teams who appreciate to have, through the Project Managers, a direct personal contact with a Tacis organisation which they otherwise perceive as distant and bureaucratic.

The growing role of the TA section should have positive consequences:

- a stronger TA section having some vision of what a Tacis policy might be should contribute to the design of more consistent Tacis programmes;
- the relevance and appropriateness of projects should benefit from a better awareness of opportunities for interventions which institutional developments are offering;
- the utilisation in a complementing manner of various financing instruments should favour a flexible implementation of projects; it should therefore impact positively on their effectiveness and compensate to some extent the relatively long delay between the identification of projects and their implementation.

This development is however fragile and bearing some risks:

- Since it is relying to a large extent on personal features of some individuals, it might be put at risk once these move to another position;
- Project Managers are generally young; they have therefore a limited experience and not necessarily a good understanding of the situation in Ukraine; no provision is made when they are recruited that they possess a proper qualification in the area they will be responsible for;
- Since there is no terms of reference defining the specific responsibilities of the TA section conflicts of competence might arise between Task Managers in Brussels and Project Managers in Kyiv as well as between the latter and their counterparts in the Co-ordination Unit.

2.1.3 Bias in favour of selecting good projects rather than programmes supporting good policies

Notwithstanding the move from “demand led” towards “dialogue driven”, the ‘Tacis system’ remains better organised to identify good projects than to select projects and instruments supporting policies which, in accordance with Tacis overall objective, would effectively induce a transformation from a command economy towards a market economy and the development of a democratic society.

This situation stems at least partly from the way Tacis Action Programmes are prepared. Representatives of the Co-ordination Unit and of the Technical Assistance section of the EC Delegation, which represents the EC in these discussions, start with the establishment of a long list of projects. The Co-ordination unit brings in proposals received from the Ukrainian Government, who in many areas has not designed a clear and consistent policy or was unable to enforce it against opposing political forces. The EC pushes forward its own projects which in most cases do not either reflect any specific policy. The initial list of projects is modified as the meetings go by through additions and removals of projects until it comes to a final list fitting the budget envelope. Neither have negotiators on both sides a mandate to discuss policy matters, nor gives this negotiation process much room for such a discussion.
As a consequence terms of reference of Tacis projects are often prepared by consultants without clear instructions about the policy to pursue. The ToRs describe the situation of the sector, its weaknesses and the obstacles faced by the reform process. But they fail to indicate what are the main issues at stake and how the project is to tackle them.

This does not necessarily diminish the appropriateness of particular projects. But it negatively affects the relevance and consistency of the country programme.

Furthermore one observes that projects supporting a consistently designed policy tend to have a greater impact than other ones. The contribution of Tacis projects to the development of a sound financial sector, whether these projects apply at the bank level or at the sector level, was undoubtedly enhanced since the National Bank of Ukraine started in 1996 to implement a firm banking policy. Similarly, in the energy sector, the impact of Tacis projects is all the more significant that all donors interventions converge towards the implementation of a commonly agreed reform policy. On the contrary, the impact of Tacis interventions in the agro-food sector as well as the impact of its support to the privatisation process are severely hampered by the lack of any clear policy of the Ukrainian Government in these areas, a situation which is further aggravated by conflicting views between donors.

It must be noted in this regards that there is up to now no example of a consistent policy being designed and implemented in any sector in Ukraine but with the assistance of an international financial organisation, IMF or World Bank, making use of its financial leverage to overcome the various obstacles which the transition process is facing in this country.

2.1.4 Difficulty to reallocate resources across projects

The rigidity of the procedures makes it extremely difficult to stop a project and to reallocate resources within the Action Programme or across instruments when a project is not progressing as expected. It is therefore easier to redirect the project\textsuperscript{75} or to extend it, thus reallocating resources inside the existing contractual envelope. This may often lead to a sub-optimal use of the resources since they had been programmed in view of other aims. Moreover, it often leads to the paradoxical consequence that a project with implementation problems might end being more profitable for the contractor.

The facilities are not different in this respect and the evaluation team was explained that a Bistro Programme Officer can suspend payment in some cases (absence of financial supporting documents, original travel tickets, timesheets, etc.) but not due to inappropriate contractor’s report.

2.1.5 Tendency to use specific instruments outside their normal range

The high profile adopted by the Tacis services of the EC Delegation in Kyiv have led them to try to use all available instruments to reinforce and supplement the National Action Programme. This moved has been encouraged, or at least not opposed, by the Ukrainian authorities represented by the Co-ordination Unit, because the Action Programme is felt as being more under their control than instruments like the facilities or the Interstate programme. Therefore, these alternative instruments have been often used for purposes different than those they were intended for. There are several examples of such deviations:

\textsuperscript{75} The example of the “Strengthening the SPF project” (see Project Evaluation Note 3 in Volume II) is an interesting illustration. The project has been designed to restructure the SPF but at the outcome of the inception phase it appeared that the restructuring could not take place due to institutional difficulties; on the other hand a former project had developed an information system that needed maintenance and upgrading; progressively the essential of the resources of the “Strengthening SPF” project were used for the information system. The possibility of stopping the restructuring project and defining another project with ToRs and resources focused on the information system was not even considered, and it would probably have led to an administrative nightmare. It is interesting to ask the question of what could have been the solution if the computer development of SPF had not offered a welcome alternative opportunity.
The Policy Advice facilities\(^76\), implemented through the EES programme, have been occasionally used for interventions which could hardly be considered as policy advice or were of such a magnitude that a specific mainframe programme would have been more justified. The two projects supporting the organisation of the secretariat of the Vice Prime Minister responsible for reform and the Inter-Ministerial Committee for Agricultural Policy are logistical and management support more than policy advice. The successive supports to the Ukrainian Economic Trends, although they undoubtedly produced very valuable information and advice, cannot be justified by the need to provide a quick answer to punctual policy advice demand, since they relate more to the provision of recurrent service the production of which should eventually be appropriated by a local institution in charge of offering this type of product; Similarly, Interstate Programmes in Ukraine are more and more used to finance national activities rather than real interstate programmes; The frontier between instruments is not well respected so that several legal projects financed through the EES or the Bistro facility should have normally be taken care of by the UEPLAC mainframe project; The Bistro facility has been on several occasions used to finance projects the objectives of which were already covered by mainframe projects for which the Bistro facility became a sort of extension.

The consequences are mixed. On the positive side, this gives a greater flexibility to the programming approach and gives extra resources to those task managers and Delegation experts who have a good understanding of how to handle the instruments and procedures and use it to complement their projects with additional actions and supplementary inputs. On the negative sides, the use of instruments like facilities for ad hoc objectives, deprives these instruments of their justification and offers scope for “political” pressures to use the facility in a discretionary way. It also reduces significantly the transparency of the programming process and in some cases complicates considerably the management of projects which are run with inadequate instruments.

### 2.1.6 Co-ordination of complex projects

Some projects are a brick in a complex network of interventions to support a large reform (energy, financial sector). Such projects differ from stand alone operations and their success depends largely on the crucial position and responsibilities of an overall co-ordinator; if the complex reform is not centrally managed with sufficient authority the individual bricks may fall apart. Different situations have been observed in the interventions of Tacis in Ukraine in that respect:

- In the reform of the financial sector overall co-ordination at the conception level is made by the World Bank and the EC could ensure that in the area where it intervened (support to NBU for the transformation of the bank accounting system) effective co-ordination would take place; moreover, the EC provided a co-ordinator\(^77\);
- In the energy sector the World Bank is also taking the lead to engineer the reform but the overall co-ordinator is a consultant (not financed by Tacis) with an insufficient mandate to monitor the reform in all its aspects and with the continuity required by a long lasting undertaking\(^78\).

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\(^76\) See Part II, section 9.2  
\(^77\) See this report part II sections 4 and 8.1  
\(^78\) See this report part II, section 5 and Volume II, Project Evaluation Note 4-1.
Neither the Action Programme nor the Statement of Endorsement of projects address this question.

2.1.7 Co-ordination mechanisms and sharing of information with other donors in Ukraine

Co-operation with and specialisation among donors has been relatively well developed in Ukraine.

It has been a constant policy of the Delegation in Ukraine to pay a particular attention to the co-ordination of its interventions with those of other donors. Co-ordination with member states should be easy since they participate in the Tacis Committee, however, in practice bilateral co-ordination between the EC and member countries involved in a particular question is more efficient. Co-ordination with USAID and with International Financial Institutions is essential given their heavy weight in Ukraine.

Under the impulse of the EC Delegation in Kyiv, a mechanism has been set up to develop co-ordination and mutual information procedures among donors. It takes the form of a donor co-ordination committee holding regular meetings and is completed by informal contacts between the staff of the donor institutions and between the expert teams when necessary. The co-ordination committee tries to achieve agreement on who would take the lead on a particular area of reform. Then, this “leader” is charged to analyse the problems, identify gaps which need being filled, and the other donors align to provide inputs where they are most adapted.

Three examples of this model of co-operation are currently at work in Ukraine.

The reform of the financial sector, under the leadership of the World Bank who has the leverage of a large financial sector adjustment loan. In this context all the components of the reform have been reviewed with all donors and specialisation has taken place to make the best use of available expertise and instruments and to avoid duplication of efforts. The same type of co-operation under World Bank leadership is observed in the energy sector. More recently the overall reform of the public administration has been the object of the same type of agreement: the World Bank is engineering the whole reform, with a $600 mln loan to which policy strings are attached which other donors would probably not have the leverage to impose; within this broad reform Tacis is, among other tasks, taking the leadership in the civil service reform.

The interesting features with this co-operation among donors in Ukraine is that it is not limited to committee work but goes up to the exchange of terms of reference and the implementation of projects, a fact seldom encountered in other countries.

In general it can be observed that Tacis projects conducted in such co-ordinated environment are performing better because they are inserted in a consistent strategy framework and become the instruments of a broader policy. It remains that if the strategy agreed upon by all donors is not a good one the impact of the intervention will be negligible or even negative.

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79 For example, the support to the National Bank of Ukraine to develop a strategy to reform bank accounting in Ukraine, as part of the overall financial sector reform strategy agreed with the donors, and the introduction of the International Accounting Standards, have been co-ordinated by an expert provided by Tacis. It has involved Tacis, USAID and BKFH projects in pilot banks and was completed by a large training programme involving the three donors. The terms of reference for all projects in the pilot banks were the same, the training programme is fully co-ordinated with the same ToRs. People trained by Tacis were used as trainers in other projects.
Co-ordination is not always perfect and different difficulties can arise:

- In terms of intervention strategy there are differences of view between the donors which make co-operation more difficult. Privatisation is an example\(^{80}\) with the divergence of opinion between USAID and Tacis on whether mass privatisation should be the preferred instrument, or case-by-case privatisation should be also supported;

- In terms of design and implementation several considerations emerge from this evaluation. For projects which may have macro-economic implications (public finance impact e.g.), there has been insufficient attention paid to these consequences and a lack of co-ordination with the donors involved in the areas of macro-economic stabilisation and structural adjustment\(^{81}\).

  It has been observed that Tacis projects and experts working in the context of a strategy designed by an IFI (World Bank or IMF) did very well. On the other hand, the incorporation of IMF experts in Tacis projects where IMF had no direct stake proved disappointing.

  The organisation of projects involving several donors is always a tricky exercise and even when fields of specialisation and intervention are agreed upon, the designation of the effective project leader and the organisation of the co-operation remain difficult\(^{82}\);

- Co-operation with IFIs may reduce the visibility of Tacis because the magnitude of its technical assistance input is viewed as insignificant compared to the investment generally provided by the other institution.

  For example, Tacis and EBRD are co-operating very effectively. Tacis provides the Bangkok facility\(^{83}\) and has supported with large technical assistance programmes the EBRD efforts in the banking sector in Ukraine\(^{84}\). It is disappointing that this effective support to EBRD is not recognised by some visibility of Tacis action. Neither the EBRD office in Kyiv nor the PMU set at the National Bank of Ukraine to monitor the EBRD credit line knew clearly that Tacis had been involved nor to what extent. Some beneficiary banks themselves had not a very clear view on this.

**2.1.8 Documentation system**

The documentation of Tacis intervention in Ukraine is not systematically organised. In the Commission operational services in Brussels there are no centralised archives and each task manager organises his/her own filing system. Since there is no formal hand-over procedure when task managers succeed to each other the availability of information on projects and sectors is totally variable and depends on individual circumstances. The Tacis monitoring system has a systematic collection of monitoring reports since the origin of the system; but contractor’s reports are not systematically archived. In Kyiv there are three libraries with contractors’ reports. None of them is complete and there is no available updated list of these reports.

This issue has already been raised on several occasions\(^{85}\) but found no solution. This lack of archive is limiting the possibility to draw lessons from past projects for designing future strategies, it also limits the valuable efforts to disseminate results.

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\(^{80}\) See this report Part II, section 2

\(^{81}\) See for example the case already mentioned of the Employment services project which was nearly asphyxiated under World Bank pressure because of the public finance constraint (see Project Evaluation Note 6-1 in Volume II).

\(^{82}\) This was observed, for instance, in the EES project to provide Policy Advice in Agriculture in the form of the organisation of an Inter-Ministerial Committee for Agricultural Reform. In its preparation phase the project faced major difficulties of co-operation between Tacis, Usaid and British Know How Fund. They could be resolved only after a complete division of responsibilities had been agreed.

\(^{83}\) See this report Part II, section 9.3.

\(^{84}\) See this report Part II, section 4 and Project Evaluation Note 3 in Volume II.

\(^{85}\) For instance in the report produced by Tecnitas at the end of their monitoring assignment for agrofood in 1995.
The accumulation of well documented archives is marred by three difficulties:

- An unclear ownership of the technical reports produced by the contractors. The Commission, the partner organisation (who signed the letter of endorsement of the project) and the beneficiary (technical/industrial partner) when it is distinct, have a claim on these reports. The issue becomes very practical when the contractor produces business plans with the help of the industrialist partner and including data which the latter considers as his property and wants to keep confidential vis-à-vis his competitors but also vis-à-vis the official PO who as an administration may be tempted to use these data to impose the technical partner tougher norms based on the reports provided by the contractor;
- There exists no standardised numbering of projects. Three systems are coexisting: project numbers, contract numbers and monitoring numbers. There are no systematic tables of correspondence which complicates enormously the access to documentation and the organisation of databases. Proposals have already been formulated to have a unified identification system but they do not seem to have been implemented;
- It is frequent that Tacis documents have no reference number, no date and even no page numbers. This makes them fairly useless archives because it is never clear at which stage of development of a problem they have been produced, nor to which problem they refer. When they are photocopied piecemeal, as is frequent when some extract is attached to a fax, it becomes impossible to consider them as a source of documentation.

2.2 CROSS CUTTING ISSUES RELATING TO FORMULATION AND PREPARATION OF INTERVENTION

2.2.1 Frequent weaknesses in the Terms of Reference

Many Tacis projects encounter difficulties which originate in weaknesses of their ToR. It has already been mentioned (cf. §2.1) that, because consultants in charge of drafting the ToRs are in many cases not instructed on the policy pursued by the EC, ToRs fail to indicate what are the main issues at stake and how the project is meant to tackle them.

Analysis of the monitoring reports also indicates that most of the time difficulties encountered with projects take place in the inception phase. Discussions with the monitors and other intervenants (especially the contractors) indicate that when problems occur at this stage they often require an adaptation of inadequate terms of reference.

The main weaknesses of project ToRs frequently met are the following:

- outdated terms of reference;
- insufficient analysis of situation and project environment;
- adoption of standard models with insufficient adjustment to local situation;
- interventions of other donors are ignored or vaguely identified;
- connection with former Tacis projects are not precisely identified;
- weak intervention logic;
- insufficient appropriation of the ToRs by the partner organisation/beneficiary.

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86 Tacis Monitoring Team Kyiv: Analysis of Tacis Projects through Monitoring Reports sorted by Average Scoring, Monitoring Reports 16/9/1997-31/1/98, prepared by Michel Nadon, Vitalila Mudruk, 5th February 1998. Although the sample analysed in this note is relatively small, it is worthwhile to note that 50% of the projects monitored in the inception phase were problematic projects, while this percentage fell to less than 4% for projects monitored during implementation or at completion.
Outdated terms of reference

An inadequation of the terms of reference to the current situation, resulting generally from the long period of time elapsed between the identification and the beginning of implementation of a project\(^\text{87}\).

**Insufficient analysis of situation and project environment**

The project environment, its institutional environment as well as the partner organisation and beneficiaries which should contribute to its implementation, is in many cases insufficiently analysed. In particular, ToR very often underestimate the obstacles which an unstable and often unfavourable institutional environment, as well as the absence of any clear policy supporting the transition process is opposing to the achievement of projects objectives. They similarly often fail to recognise the deeply rooted reluctance to change of many Ukrainian actors. As a consequence project objective are frequently over-optimistic.

Projects in the agro-food sector provide many examples of such a situation. Most ToRs of agricultural restructuring projects neither stress that the institutional environment does not provide any solid legal basis for such projects, nor underline that members of collective farms are in most cases hostile to any restructuring of their enterprise. Partner organisations proposed to co-operate in the development of a project targeted on the support to trade and marketing structures for agricultural products happened to be either public or heavily dependent on a Ministry of Agriculture whose willingness to promote the development of market mechanism in the agro-food sector is highly questionable; even if it had not been the case, the impact of such a project was deemed to remain very limited as long as the State keep its monopoly on grain trade.

Other examples of such analysis deficiencies may be found in the Enterprise Restructuring and Development sector: selection for privatisation of enterprises which following a decision of the Parliament were not privatisable; assumption that the billing of their services could ensure the self-sufficiency of SME development agencies, etc.

**Adoption of standard models**

Many projects implemented in Ukraine aim at applying in this country models which have been developed in other Tacis or Phare countries if not in Western Europe. SME Development agencies and Business Communication Centres clearly belong to the first category. The proposed restructuring of the electricity sector is directly inspired from the reform of this sector which was initiated in England and Wales in the eighties. More attention could be devoted to the adjustment of such models to the specific conditions of Ukraine. The distinction between SMEDAs and BCCs, which may have been appropriate elsewhere\(^\text{88}\), proved ill-adapted to Ukraine’s needs. It does not seem realistic to expect Ukraine to achieve within three years a restructuring of the electricity sector which British authorities did not achieve for their own over a decade in a much more favourable climate.

**Interventions of other donors**

ToR not always mention other donors interventions in the project area. When they do it they very seldom provide any precise indication on the nature and objective of these interventions and hence on the opportunities for complementation and risks of overlapping or contradiction. It must, however, be noted that the delay between the drafting of the ToR and the actual implementation of the projects would often make such an information somewhat out-dated.

\(^{87}\) Several examples are pointed in the Project Evaluation Notes of Volume II.

\(^{88}\) See *M&E of the Tacis Programme in the WSW Region Kyiv*, Interim Report, 15 April 1997. The section on SMEs, explains that the two models BCC and SME Development Agency adopt a pattern tried out over the whole CIS.
In most cases this gap in the information provided by the ToR does not create much difficulties. When needed, co-ordination with other donors interventions is worked out during the inception phase of the projects. There is however some examples where the lack of information and analysis on other donors interventions and policies questioned the appropriateness of the project. It was the case for the support to the Kyiv Commodity Exchange where it happened that this institution was already benefiting from a comprehensive assistance programme funded by USAID. Still more worrying are the cases where a Tacis project conflicts with a policy promoted by an other donor as was the Employment project whose sustainability relied on a wage tax which the World Bank proposed to cancel.

**Connection with former Tacis projects are not precisely identified**

Whereas many projects are meant to complete and/or complement previous Tacis projects, ToRs seldom describe precisely enough which outcome of these previous projects the new one should build upon and/or which ones it has to take over. The successive projects dealing with assistance to the State Property Fund provide a clear illustration of this: whereas one of these projects had equipped the SPF with a data base which proved to be a very useful tool but which needed further technical assistance subsequent projects did not mention the existence of this data base nor the necessity for contractors to provide inputs for its maintenance, up-dating and further development.

**Weak intervention logic**

Projects specific objectives are often sketchy and/or too numerous\(^89\) and are therefore hardly monitorable. This might in some cases be a consequence of the tendency to concentrate Tacis financial means on a small number of large projects which actually encompass several small more precisely focused projects. Stating for example that a project aims at:

- Accelerated land reform and farm restructuring process;
- Accelerated privatisation of agro-industries and agri-services and their restructuring process;
- Broadened market cleared prices of agricultural and food products and inputs;
- Restructured and strengthened institutions with market-oriented minded intervention in the sector’s reforms;
- Does not help much to assess project achievements.

In such cases monitors, together with the contractor, frequently propose a rewriting or at the least an adjustment of the project synopsis. This is undoubtedly welcome. But the status of such reformulated project objectives remains unclear.

When there are discrepancies between ToRs and the contractor’s methodology this further complicates monitoring, since both documents are attached to the contact. The EC will tend to consider that the ToRs are prevailing while the contractor may argue that he has been selected on basis of his methodology. The problem is a minor one when there is a good relationship between the contractors and the other parties\(^90\) but there are cases where it would make it difficult to invoke inadequate performances of the contractor to stop a project.

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\(^{89}\) Monitors consider that projects with more than one, or maximum two, specific objectives are difficult to monitor. Sometimes there are eight.

\(^{90}\) As was the case in the mass privatisation project where the methodology proposed by the contractor already pointed to some inadequacies in the TORs due to evolution of the situation since they had been drafted. (See Volume II, Project Evaluation Note 1-1).
A further, and maybe more serious consequence of the vagueness of project objectives is to make the project intervention logic obscure. It is often difficult to assess how project activities and expected outputs may contribute to the achievement of too broadly defined specific objectives. This shortcoming of ToRs is still aggravated, as mentioned earlier (cf. §2.4), by a strong discrepancy between vague project objective and a very detailed description of the inputs to be supplied by the contractor. Actually project objectives happen to be very often too ambitious and expected outputs too large to be achieved within the project life with the foreseen inputs. This reflects in frequent project extensions.

**Insufficient appropriation of the ToRs by partner organisation/beneficiary**

Every Tacis project must be endorsed by a partner organisation (PO). This endorsement takes place before the tendering procedures are launched. The terms of reference are submitted, with a Russian translation, to the PO who has been consulted on, but not always been closely associated to, their preparation. When the beneficiary is distinct from the PO, the former discovers the ToRs at the time of his involvement in the project, i.e. at the kick-off meeting or even at later stage if the project is such that the beneficiary is identified during the inception phase.

For these reasons ToRs are frequently viewed by the beneficiaries as not adapted to their situation and they have difficulties in appropriating them; it is also often too late to adapt them significantly.

**2.2.2 Project design is biased towards management of resources rather than pursuit of objectives**

There is in many projects’ ToR a striking contrast between the project specific objectives, which are presented in a rather sketchy way, and the inputs to be supplied by the contractor and the methodology to apply which are described with much detail.

In the case by case privatisation projects, although the enterprises to be privatised had still to be selected or had been selected on a purely provisional basis, ToR indicated the specific qualification of the engineers needed to proceed to the technical audit of these enterprises. Similarly, the ToR of some agricultural restructuring projects stated how many months of short term and long term experts of various qualifications had to be supplied by the contractor although the farms and processing units willing to co-operate with the project were still unknown and had to be identified by the contractor.

This practice, which does not seem to have any justification, entails some serious drawbacks.

Instead of developing innovative methodologies which would bring in new ideas and provide more elements for the selection of the contractor, bidders cannot do much but present a methodology which is nothing more than a rewording of the ToR.

Because of a rapidly changing institutional environment and/or because direct beneficiaries of the projects are only identified during the inception phase, projects ToR have very often to be deeply modified at the end of the inception phase and not seldom at some later moment in the case of large projects. These changes, which more frequently affect the inputs to be provided and/or the methods to implement than the specific objective of the projects, are the more necessary because initial ToR were describing project resources with much detail. But contractors, who are tied into contracts with the firms constitutive of a consortium as well as with experts, are facing difficulties when it comes to change the nature or distribution of inputs to be supplied within the project or its methodology.

At the very end this practice impacts negatively on the adequacy between objective and resources.
2.2.3 Time consistency of EU intervention

With the growing number of projects completed and under implementation in Ukraine, the EC is increasingly led to propose for inclusion in the Action Programmes projects which aim at completing or complementing former Tacis projects. As a consequence the margin of manoeuvre for a redeployment of the programme towards new areas or new methods of intervention is shrinking from year to year.

There would however be little to say against this trend if it was not in many cases the result of a deliberate underestimation of the delay and of the volume of inputs needed to deliver the outputs and achieve the objective expected from the projects. For example, it was clear from the outset that an 18 months delay was insufficient to establish Post-Privatisation Centres, recruit their staff, train their consultants through formal and on-the-job training, and secure their self-sustainability. In all three cases an extension to 30 months has had to be decided with the appropriate budget adjustments. Underestimation of requested resources is still more obvious in the case of UEPLAC, a structure whose objective is to assist Ukrainian authorities with the development of a legislative framework sustaining the reform process. Whereas this assistance has to be provided on a medium-term basis and although there is no chance for the Ukrainian budget to take over the cost of this institution, UEPLAC was created through a one-year contract.

This underestimation of the delays and costs of projects is distorting the working out process of Action Programmes under two respects:

- Decisions to finance projects are taken without a proper information on the real volume of inputs requested by these projects and on their real duration;
- Once decision are taken, they predetermine to a large extent the content of subsequent Action Programmes, thus reducing the visibility of the decision mechanism.

Furthermore, this situation creates uncertainty for the contractors and beneficiaries involved in such projects since they have no guarantee that they will be awarded the contract extension which is needed to complete these projects. Actually it occurred in some cases that, because of delays in the procedure, projects have been interrupted. It then might happen that those consultants who had started the implementation of these projects are no more available to contribute to the extension phase.

2.2.4 Projects size and duration

A cluster of problems are related to the size and duration of projects. Three main features of Tacis projects interfere in this regards:

- the duration of the preparatory phase, from the financing decision to the project start date;
- the average size of projects;
- the average duration of projects.

The preparatory phase of projects lasts 18 months at the shortest. Some efforts are presently undertaken to reduce it through a quick start of the ToRs preparation anticipating on the formal financing decision. Whatever the outcome of these efforts, this phase is very long when compared to the implementation phase of projects which ranges from 12 to 18 months.

More important is however to underline that this long duration of the projects preparatory phase is mainly linked to the accomplishment of administrative tasks whereas the time devoted to the technical preparation of projects is very short. Less than one month, of which two weeks in the field, is granted to consultants to design a draft for a project ToR, that is to say analyse the project environment, define project objectives, identify the related outputs, evaluate the inputs requested for their achievement, find
out the partner organisation(s) of the project, reach an agreement with the partner organisation(s) on the project main features. The very little means devoted to this task certainly explains to a large extent the weaknesses of many ToRs.

As regards projects size there is a tendency to privilege large projects with a budget of a minimum ECU 1 million. The main argument behind this drive is that a smaller number of projects should be more easily managed by a limited number of Task Managers. But it has some significant drawbacks.

It leads to the design of complex projects pursuing large and often over-ambitious objectives, encompassing a large number of different activities and involving a great number of partners. In some cases these large projects are nothing more than a somewhat artificial aggregation of small projects. Such complex projects are difficult to manage for the Task Managers, whose workload is accordingly not significantly lightened, as well as for contractors. They are also difficult to monitor since they can achieve very uneven results in the various areas they are encompassing. Furthermore contracts to implement large projects are generally granted to consortia which confront the project director with additional difficulties associated with the management of a consortium of different companies and impose rigidities in the mobilisation of inputs.
Whereas projects size tends to increase, projects average duration remains within the same range of 12 to 18 months. This means that projects design is over-optimistic when assessing the time and delays needed to perform operations. Several projects inception reports and/or monitoring reports notice this constraint and underline that it is linked to unrealistic ToRs. One cannot reasonably expect to establish from scratch a post-privatisation centre and to develop it up to the point where it becomes self-sufficient within a 18 months period. There are projects whose contract duration does not make any sense as for example the UEPLAC project which aims at providing high level advise on a long term basis while its contract duration is restricted to one year.

The project duration covers two main phases: inception and implementation. In order to prevent the inception phase to encroach too much on the total project duration, it has to be restricted to 2 to 3 months. But considering the weaknesses of ToRs, the increasing complexity of ever larger projects and the big changes which may have taken place in the project environment between the moment the ToR were drafted and the project start date this duration happens to be frequently too short to identify properly the adjustments which have to be brought to the project expected outputs and corresponding inputs. This results either in an extension of the inception period, which will later imply an extension of the overall project duration, or in an insufficient analysis of the adjustments which should be made to the project, thus putting at risk the achievement of its objectives.

2.2.5 Replication of experience

There seem to be a tendency to promote similar projects in various CIS countries. SME development agencies and Business Communication Centres were established in Ukraine but in most other ‘Tacis countries’ as well. Programmes to foster energy savings are another example of EC interventions which were implemented in many countries of the former Soviet Union. Technical assistance to improve their organisation and management was provided to Ukrainian commercial banks as it was to Russian ones.

This reflects the existence of situations and problems common to most countries which experienced the Soviet type of command economy. They all very much count on the development of SMEs to supply goods and services whose production was neglected in the command economy and to create jobs to compensate for the reduction of employment in larger enterprises. All of them use energy in a very inefficient way. All of them have to develop a banking sector without any former experience in this area.

Tacis, however, is not organised to draw lessons from experience made in one country in order to avoid repeating mistakes and, on the contrary, build upon successes. Business Communication Centres were very successful neither in Ukraine nor in other places; as indicated above such structures were however established in nearly all Tacis countries. Whereas technical assistance to commercial banks was provided in Ukraine through contracts devised for each beneficiary bank, the same objective was pursued in Russia through the establishment of a permanent advisory structure intervening on request; the advantage and drawbacks of these two different approaches have not been analysed.

Similarly, no analysis is made whether a project which was justified in the context of a peculiar country strategy remains relevant under another country’s strategy.
2.2.6 Absence of phasing out strategy

Projects should aim at the sustainability of their achievements. This preoccupation is especially important for all projects including an institutional building component. It is however rarely taken into account in the design of these projects at least in an appropriate manner.

Most frequently ToRs assume that the structures established under the project will be self-sufficient or will switch from Tacis to local financing once the project is over. They consequently consider that the project is due to terminate abruptly and do not provide for any built-in phasing out strategy.

SME development agencies are a typical example of this. While similar structures in the whole Western Europe are subsidised, sometimes heavily, it was clearly unrealistic to expect, as ToRs did, that SMEDAs would achieve self-sufficiency within two years through the billing of their services to enterprises which are struggling to survive in an adverse environment.

As for the sustainability of the Tacis project aiming at the resettlement of redundant army officers it relies on the assumption that the Ukrainian Government will provide financing to the structures established under the project once this one is over. Considering the very difficult situation of the State budget, this assumption is highly questionable.

Neither in one case nor in the other the question of sustainability was raised in a realistic approach reflecting in the design of a phasing out strategy.

The absence of such a strategy results in two possible consequences:

- at the best financial support is continued in one form or another as was the case for the SMEDA in Kyiv; this impacts in a non transparent manner on subsequent Tacis budgets, may lead to a chaotic development because of temporary interruptions of Tacis support and does not provide any long term solution for sustainability;
- at the worst the structure established under Tacis is closed which means a loss of the investments made to create it.

2.2.7 Late and sometimes insufficient involvement of beneficiary when it is distinct from the partner organisation

The Partner Organisation (PO) of a Tacis project is the Ukrainian institution which, in a demand-driven process of projects selection, has requested Tacis intervention, discussed with the EC its objective and expected outputs as well as the inputs to be supplied by the Ukrainian side, and which has eventually expressed its approval of the project ToR through the signature of a Statement of Endorsement. PO are invited to participate in the evaluation of bids and selection of the contractor. The beneficiary of the project is the entity which directly benefits from Tacis support; it may differ from the PO.

When PO and beneficiary are the same entity there is a presumption that it is committed to favour a successful implementation of the project which it contributed to identify and to formulate. Actually problems arose with some projects. They stemmed from changes which had occurred at the PO level between the moment the project was designed and its start date, such as for example an election which had modified the composition of a local administration, from difficulties in establishing confident co-operative relations between the PO and the contractor’s team, more frequently from misunderstandings from the PO as regards the content of the project (often PO were expecting more equipment to be supplied by the project).
When beneficiary and PO are distinct entities two different situations may occur:

- either the beneficiary is a new entity created through the project and is passed the responsibility of acting as PO once it has been established;
- or the beneficiary is an already existing entity and remains distinct from the PO.

SME development agencies and post-privatisation centres are a good example of the first scheme. Although original POs were sometimes a bit reluctant to give up their responsibilities or to transfer pieces of equipment supplied by the project, this scheme proved efficient and favoured a close cooperation between beneficiary and contractor. In particular, since new POs have been created through the project, there is few room for misunderstandings from their side as regards project objectives.

The management of projects involving distinct PO and beneficiary proved more difficult. In such cases the selection of the beneficiary is the result of a negotiation between the PO and the contractor. It is identified before the kick-off meeting or, more frequently, during the inception phase as was the case for the projects dealing with agricultural restructuring or case by case privatisation. Selection of the beneficiary takes place after the ToR have been designed, approved by the PO and accepted by the contractor. However characteristics of the beneficiary may not be the most favourable to the achievement of project objectives: case by case privatisation projects would have probably be more successful if beneficiary enterprises would have been chosen in the consumption goods industry rather than in the intermediate goods industry. The beneficiary, which has not taken part in the design of the project, may not be genuinely committed to achieve its objectives. Contractor’s team has to comply with the requests and expectations of two partners whose agendas may differ.

2.2.8 Selection of partner organisation for and design of projects addressing the capacity to formulate and implement reform

Projects addressing the capacity to formulate and implement reform are confronted to two important choices as regards their design:

- they may either rely on an existing structure or choose to establish a new structure created for that purpose;
- they may promote the domestic capacity or provide directly the requested advice or services.

As regards the first alternative, Tacis support to SME development in Kyiv provides an example where both ways were used at the same time: whereas the Business Communication Centre was established within the existing Chamber of Commerce, the SME Development Agency was created from scratch.

Opposite choices were also made as regards policy advice: support to domestic capacities in the case of the agricultural policy projects, direct provision of advice with UEPLAC.

In general, new structures tend to deliver more effectively the project expected outputs. The main reasons underlying this performance are that (i) new structures rely on a staff which they have themselves recruited and whose qualification and other characteristics are therefore the most appropriate to perform project operations; (ii) new structures have no task to perform but the implementation of the project. On the contrary in existing structures the staff may not fit project requirements whereas inputs supplied by the project are at risk of being diverted to some other activities.
However sustainability of project achievements is more easily secured within existing institutions than in newly created ones which, in the situation presently prevailing in Ukraine, are facing serious financing difficulties.

As regards the second alternative, a direct provision of advice and services by European experts or by a team of European and local experts, is undoubtedly the most effective and above all quicker way of assisting policy makers. It must however be noted that a prerequisite to this potential efficiency is the existence within the institutions which should benefit from these services of a capability to formulate questions; in this respect direct provision of advice cannot be an absolute alternative to institution building. But the main drawback of such a solution, as can be seen from UEPLAC, is that it is unsustainable. Once the Tacis project is over there is few hope that the Ukrainian Government will finance UEPLAC nor that Ukrainian experts of UEPLAC will apply for a position in the Ukrainian administration.

Both targets - institution building and direct provision of policy advice - cannot be reached within one single project as wrongly assumed by UEPLAC’s ToR. The direct provision of advice requires very high level experts directly advising policy-makers. As for institution building it relies on qualified experts working closely with their local counterparts in the administration.

Because the alternative solutions presented above are not fully substitutable, choices have to be clear and to meet local partners requirements. In the case of Tacis support to the cabinet of the Vice-prime minister there would not be much to say against the project except that it does not fit at all what was requested: the demand was for institution building while Tacis is providing direct policy advice.

2.2.9 Recourse to consortia

A large number of Tacis contracts are awarded to consortia involving firms of different European countries. This situation is encouraged and in some cases prescribed by the EC. It has many reasons, some of them being good, others arguable:

- the know-how and qualifications required for the successful implementation of large projects may more easily be supplied by a consortium of firms with complementing experience than by a single company;
- favouring joint work between companies from different nationalities contributes to the development of a European-brand expertise;
- joining a consortium with other short-listed firms increases the chance of any single company to be awarded a part of the contract and hence to recover the cost of preparing a proposal;
- awarding contracts to consortia constituted by firm of different nationalities secures the principle of ‘juste retour’ which states that companies of every EC member should receive an equitable share of EC contracts.

This practice however gives rise to inconveniences:

- Co-ordination between partners induce additional management costs which are reflected in the financial proposal of the contractor; if deficient, it may seriously affect the project efficiency;
- Consortia tend to be less flexible than individual firms. Once they have agreed on a distribution among them of the supply of inputs and accordingly on their respective revenues, members of a consortium will be confronted with delicate problems if the project developments would imply a redeployment of firm-specific expertise. In the case of Ukraine, where project ToR have often to be significantly modified after the inception period, this lack of flexibility may result in an inappropriate adjustment of the input supply to the project requirements;
2.2.10 Use of local experts

Most projects require that the contractor provides a team of international and local experts. Sometimes these local experts are individual consultants, sometimes they are local firms associated or subcontracted in the consortium.

This is generally positive. Its provides the contractor with a better understanding of the local situation and a real assistance to cope with the practical and logistical problems associated with working in a foreign country. It also creates a transfer of professional know how towards these local experts and firms for the best advantage of the country. When these local experts and firms can continue the operations initiated under the project after the departure of the international consultants it is a factor which influences positively impact and sustainability.

However, there are cases where the use of local consultants does not contribute significantly to the sustainability and appropriation of the project by the beneficiaries. Therefore it is relevant to attempt to list the various different situations with regard to the involvement of local consultants and their role.

A common situation is when local experts are assisting the international ones in the project with their knowledge of the country, local context, languages, and local actors. They serve essentially as support staff and providers of interpretation and secretarial services. This is always necessary and a useful ingredients in heavy projects.

Local experts can also be local consultants, aside the international consultants, to conduct the project with them, under they guidance. The local experts are then at the same time object of capacity building and beneficiaries of the project, and actors in the project which they can possibly continue. In this case different project environments and implementation strategies can have very different consequences.

If the project is implemented in and supporting an existing structure, especially a government department or a public institution, the status of the local consultants may be ambiguous. Capacity building would imply that the international experts guide the local staff in their job, show them how to improve their working attitudes, develop for and with them better job descriptions. The presence of local experts, paid by the contractor at fees, which reflect market conditions but are exceeding by far those of the local staff of the institution they work for, introduces an intermediary layer which tends to be the one who really benefits from training and transfer of know how. Local consultants often provide a very valuable input during the project and increase the operational capacity of the beneficiary. At the end of the project, however, there is generally no way they can continue working for the beneficiary because their market value is very superior to the statutory fees of the institution. When they leave there is very little, or no, local capability left and the sustainability of the project is compromised. This is typically the situation of the information technology experts in the “SPF restructuring project”, or that of several energy projects. It is not easy to devise a correct solution to this problem. Several beneficiaries have pointed to the evaluation team that instead of financing local consultants the projects should find some way of financing the local staff of the partner organisation in the form of “stipend” or other advantage to compensate for the extra work and the necessary personal investment; this would stimulate the staff ultimately responsible for conducting the job and the reform initiated under the project and be more sustainable since the local staff are normally staying it their institution after project completion. These arguments are not entirely convincing and their implementation would not be easily accommodated under current Tacis rules, but the problem is there and deserves some consideration.

These experts are generally fluent in English, already used to work with international firms, may have already benefited from specific training and are therefore sought after by the international firms operating in the country.
A completely different situation occurs when projects are implemented in a new institution and the local experts associated with its creation and development so that they could continue to operate it once the project is over. SMEDA, UET, UEPLAC, Post Privatisation Centres, are such projects, but the problem is then that practically none of these projects is sustainable. Market oriented projects which developed institutions like SMEDA and the Post Privatisation Centres might become sustainable if the economic environment evolves favourably. Currently even partial cost recovery can be done only by providing services much more basic than those for which the staff of these institutions has been trained. UET and UEPLAC which are projects whose output is difficulty marketable and for which there is no strategy of transfer to or appropriation by permanent local structures are not sustainable without EU support. There will thus be little benefit left from the inclusion of the local experts, apart for the individuals themselves.

2.3 CROSS-CUTTING ISSUES RELATING TO IMPLEMENTATION AND MANAGEMENT OF INTERVENTION

2.3.1 The time constraint is too restrictive for most projects

There are many examples where the time allocated to a project is insufficient without that this can be attributed to the contractor. It has already been observed than inception reports have to be produced too early (cf. §3.2) leading to the fact that they do not differ significantly from the ToRs. Since most Tacis projects are in fact designed within the project itself92, in practice the effective inception continues beyond the production of the inception report and effective implementation starts much later than programmed, especially when it requires a formal approbation of the beneficiary or partner organisation.

The main reasons for the delays in the inception phase are:

- the change of situation compared to the terms of reference and a lack of situation analysis and perception of the economic and institutional constraints; these elements have been already mentioned in this report;
- the difficult logistics, in particular the delayed and often inadequate provision of office space by the beneficiary is a major source of difficulty in the first weeks (sometimes months) of a project. It obliges the contractors to work in hotel rooms or flats unfit for office work, and prevents easy access to the beneficiary. The UEPLAC, the SPF restructuring project and others have been significantly affected by such problems;
- delays created by institutional problems on the Ukrainian side (for example the continuous change of leadership in the SPF preventing the institution to take formal decisions on restructuring; legal uncertainties, etc.) can paralyse temporarily a project.

These factors are generally, but not exclusively, at work at the inception phase. Additional factors tend to play more specifically at later stages. The most important seem to be:

- delays created by the EU procedures required to mobilise resources; in general, mobilisation of short term experts, acquisition of equipment, etc. are submitted to prior authorisation of the EC, a process which can be long but is obviously reduced with experienced task managers and with contractors who follow carefully the rules;
- delays created by the administrative complications linked to unclear general rules (a problem which will be evoked under §4.4);

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92 This is a major difference between grant aid where budgetary allocation is predetermined and the project designed subsequently and a loan where the project is fully designed before the resources are mobilised.
• delays resulting from difficulties to reallocate resources within a project; reaching an agreement on the need to reallocate resources (for instance: extending time, even without budgetary implications, changing experts, redefining certain outputs and activities, etc.) takes time but when it is done its formal approval by the EC is frequently a source of further considerable delay so that when the reallocated inputs can be provided the project is nearly to an end, or has already come to an end, and must be extended.

The consequences and implications of these delays are harmful for the beneficiary and the contractor:

• many projects covered by the evaluation notes (presented in volume II) of this evaluation have been the object of extension (with or without budgetary impact); in most cases it was foreseen very early but formalised very late creating uncertain situations; the project “privatisation of difficult cases” is an embarrassing example since it was terminated just before effective privatisation negotiations would start and some form of extension was agreed but not yet formalised;
• when the contract is terminated before the formal extension is finalised (as in the Restructuring SPF project), the contractor tends to maintain nominal presence but is in a very ambiguous situation vis-à-vis the beneficiary and the Commission.

These situations are detrimental to the good implementation of a project and the amount of paper work and discussion they generate is a very ineffective use of the project resources. More realist time estimation at the outset and more flexible procedures to reallocate resources could significantly improve the situation.

2.3.2 The monitoring system

The independent monitoring system of Tacis is a real achievement. It is now a well lubricated machine with well established and transparent procedures which provides a continuous supervision of the implementation of the whole portfolio of projects. The main positive outcomes are:

• the systematic follow up and transmission of signals to the Task Managers, which permits to reduce significantly the number of slippage’s, especially in the initial phases of the projects;
• the usefulness of the system for the contractors. New contractors who are not familiar with the difficult Ukrainian environment receive valuable advice and support form the monitors. There are also several projects where both the terms of reference and the contractor’s methodology failed to produce a clear intervention logic linking functionally the actions undertaken to the specific objectives; with their experience the monitors have now a critical look at this problem and where necessary propose a reformulation of the project synopsis; in all examples examined by this evaluation team this has been concertated with and welcomed by the contractors who found that it significantly facilitated their approach to the project. Finally, it is not unfrequent that contractors consult monitors for advice on how to deal with specific problems, in particular in case of difficulties with partner organisations, and they receive valuable assistance;
• the monitoring system has accumulated a documentation, though not complete (cf.§1.5), and an experience which permits to start considering the possibility of comprehensive evaluations of Tacis intervention.

On the other hand the system has a number of limitations which prevent it to deliver its full potentialities for the benefit of the general performance of Tacis:

• the evaluation system used by the monitoring teams is a quotation from ‘a’ to ‘e’ for several criteria. It produces marks which are essentially signals to attract the attention of the various parties concerned in a project on problems with regard to implementation and adequation of
specific outputs and activities to what has been programmed. They say little more than generalities on the quality of the work done and the professional competence of the Western experts93;

- Tacis projects are only exceptionally using “objectively verifiable indicators” which could be an important instrument to attempt a quantification of realisations;
- monitors do visit projects on a recurrent basis the frequency of which depends on the size of the project rather than its objective situation; monitors believe that increasing the frequency of visits in case of problem projects, although it would imply reducing it for other projects, could have a positive result;
- the role and the status of the monitors at certain critical phases of the projects is not sufficiently formalised:
  - they are not systematically consulted on the Terms of Reference at the outset of the project and therefore they may be faced with terms of reference which are not monitorable at a stage where it becomes difficult to adapt them;
  - the organisation of “kick-off meetings” and the participation of the monitors is too unformal so that often monitors are called, when they are, at the last moment and not always put in possession of all the relevant information in advance of the meeting;
  - the monitors are not systematically consulted, not even systematically informed, in case of extension of projects.

2.3.3 **Existence of external pressures which may endanger a project**

There are circumstances and factors in the life of a project under which the contractor is put in a position that leaves him with little options to avoid “external pressure” leading to “compromise” with the partner organisation or the beneficiary:

- It is frequently the case that the evolution of the context between the draft of the ToRs and the beginning of a project is such that a substantial adaptation of the objectives and the resources is viewed as necessary at the kick-off meeting; if the beneficiary or the partner organisation has been put in possession of the financial proposal of the contractor or the breakdown of prices of his contract, then the contractor may be placed in a difficult position;
- Contract extension (with budget adaptation) is another moment where the partner organisation may have a leverage on the contractor since it will generally require, and in any case be easier to obtain when accompanied with, a request of the beneficiary. A contract extension is not submitted to an open tender and it is generally based on proposals formulated by the contractor who may have had to accommodate specific demand to obtain that the beneficiary addresses a request to Tacis for a continuation of the project;
- The “General Rules” of Tacis intervention in Ukraine, which deal with the fiscal status of the experts, the modalities of exemption of tax and duties for equipment imported for the project and other very practical matters such as visas, car registration etc., have been negotiated between the Commission and the Government of the USSR in 1991. After the independence of Ukraine it has been agreed that they would apply until new conditions would be renegotiated, as Ukraine did satisfactorily with the other donors. In 1994 new general rules were set up and signed by the Government but never ratified by the Rada. Moreover, since 1994 legislation has changed, VAT has been introduced for instance. All this has generated a fuzzy situation under which any problem, claims for an ad hoc solution mobilising considerable time and efforts on the part of the Co-ordination Unit but also for the contractor. The payment of VAT on imported project equipment is a major issue. The EC principle is that it should not be paid and therefore it is never

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93 In fact, in the note where they introduce themselves to the contractors, the monitors insist on the fact that they are monitoring projects not assessing contractors. While this position is understandable and important to favour good co-operation from the contractors it leaves aside an important aspect of monitoring.
reimbursed to the contractors but the Ukrainian customs require it since they claim that the
general rules, even if they were endorsed by the Rada, do not provide ground for deducting a tax
which did not exist when they were established. The intermediation of the Co-ordination Unit can
solve the problems but privately contractors will admit that it is cheaper to find some form of
“unformal agreement” that to spend three weeks to one month time of expensive experts to go
through all the official route.

All these problems create situations of extreme vulnerability for a project because when they develop
the main benefits perceived by the partner organisation may not be the realisation of the specific
outputs.

2.3.4 Professional quality of intervention

It has been mentioned that the professional quality of the interventions is not monitored.

This evaluation team has tried to form an opinion on the quality of the work provided and found that for
the projects it investigated the professional quality of the intervention was generally outstanding,
reflecting the best practice in the profession, subject to minor reservations mentioned in certain
evaluation notes. This good impression was confirmed by the beneficiaries who were generally very
satisfied, with few exceptions, with the support received. This seems to indicate that the process of
selection through competitive tenders permits to select companies which are representatives of the upper
segment of their profession.

Technical outputs like those of supply side energy projects, financial sector projects, business plans for
enterprises, Ukrainian Economic Trends are excellent. It is more difficult to assess the quality of reports
which relate to institution building efforts such as certain project in agriculture or in human
development. The general feeling is that they are of a lower quality. It has been told to the team, who did
not have the possibility to check this assumption, that this is reflected in the fee rates which tend to be
significantly higher for more technical expertise and sectors.
Main conclusions relating to programming and delivery mechanisms of Tacis assistance to Ukraine
3. **Recommendations**

The recommendations emerging from this evaluation will be arranged in three groups:

- the need to organise a policy dialogue and suggestions regarding the adaptation of the capacity within the EC to conduct or participate in such dialogue;
- a reconsideration of the distribution of responsibilities between the various actors in the EC;
- a number of specific recommendations to improve preparation, implementation, management and monitoring of projects.

The first two groups address more specifically the cross cutting issues raised in this report in Part III, section 2.1 and complement recommendations relating to the intervention at country level (Part I, section 4), while the third group addresses the cross cutting issues raised in Part III, sections 2.2 and 2.3 and complements the recommendations formulated in the various sector analysed in part II.

3.1 **Organisation of policy dialogue with Ukrainian authorities**

On many occasion in this report the issue of the policy dialogue has been raised and evidence shows that when EC projects are part of consistent and comprehensive reform policies agreed upon between the Ukrainian Government and most significant donors, this leads to better performances. The example of Tacis intervention in the financial sector over the last years is a convincing illustration. A contrario we have observed in this evaluation many examples of situations were good projects could not achieve much impact because of the absence of clear reform strategy. This leads to two important recommendations which will bee developed in turn: (1°) improve the policy dialogue with the Ukrainian authorities, and (2°) improve the capacity within the EC to stimulate and participate in such dialogue.

1° Improve the policy dialogue with the Ukrainian authorities and base action programmes on it

A better policy dialogue is needed at two levels: to improve the programming and the intervention strategy, but also to support its implementation.

**Identification and programming**

There is a need to reconsider the “demand led” approach. It showed its limits and one has observed that in Ukraine a progressive move towards a more “dialogue driven” approach has taken place. It is important to recognise that this is a progress which has permitted more focused action programmes and the introduction at the initiative of the Delegation of good projects well integrated with other donor actions. However, even under the current practice the Action Programmes remain an addition of separate sector and thematic programmes. Even if they are increasingly the result of a consensus, rather than the response to a list of disjointed demands, they do not constitute a consistent support to a well thought reform strategy, and therefore there is no guarantee that every Tacis ECU is used in the most efficient way to contribute to the major objectives of transforming the economy and the society in Ukraine.

Tacis cannot be prescriptive and this a point which is imposed by the Council Directives and which a comparison of performance achieved by other donors who operate without this restriction does not lead to question. Moreover, the nature of Tacis instruments (mainly grants for technical assistance and institution building) and the magnitude of its resources, make Tacis a marginal actor from a global perspective, although its intervention can be decisive in many areas if provided in the right context, at the right time and well articulated with other efforts which can give it the necessary follow up and
extension. Such characteristics forbid a stand alone approach and require that the programming of Tacis takes place in the context of a policy dialogue with the Ukrainian authorities the objective of which must be to agree on:

- the main directions of reform to pursue in Ukraine and the priorities to achieve;
- the main obstacles to overcome;
- the best contribution of Tacis assistance in this context;
- the selection of areas and strategies of intervention for Tacis assistance.

It is obvious that such dialogue is essential and that it cannot take place independently with each donors; there can be only one policy dialogue between the Ukrainian authorities and the donor community.

Implementation

The policy dialogue should not be limited to programming but should also be prolonged to support project implementation. The crucial role of the partner organisation and its willingness to carry on the reform is found in every evaluation, including this one, to be a major factor of success for sector programmes and projects. The political contacts to discuss sector reforms and programmes involve seldom higher levels than heads of units on the EU sides and the National Co-ordinator on the Ukrainian side. Compared with other donors, who do not hesitate to back up programmes with meetings between high powered personalities and Ukrainian ministers, this is insufficient to ensure that programmes will receive all the political support they need. We have seen many cases where the beneficiaries of a Tacis project were not put under the necessary pressures by the partner organisation to undertake the reforms which the project involved and which were accepted as technically sensible by all parties but difficult to implement for political reasons.

In view of these general considerations our specific recommendations are that:

- EC systematically tries to organise the policy dialogue with the Ukrainian political authorities,
- While the PCA cannot be viewed as a programming instrument, it can be used to create the framework and the incentive for such policy dialogue and this opportunity should be seized. Other donors should be associated to this policy dialogue; the fact that it is organised under the umbrella of the PCA should not be an obstacle since the PCA is a signed agreement which does not exclusively reflects the orientation of the relationships between Ukraine and the EU but it reflects also the orientations Ukraine wants to give to its reform policy;
- In this context EC negotiates its support not only with the Ukrainians but also with other donors in order to have its say, and to promote its legitimate interests, in the definition and selection of the policies to support;
- EC systematically backs up its most important programmes with high level contacts with political authorities responsible for those programmes in Ukraine;
- Uses facilities such as EES also to identify policies to support and feed the policy dialogue with rational arguments;
- Targets significant technical assistance to raise the Ukrainian capacity to participate in such policy dialogue and to develop the capacity to formulate, implement and monitor macro-economic and sector policies.
2° Improve the capacity within the EC to stimulate and participate to such a policy dialogue and to use it as a basis for programming Tacis and other EC instruments.

The technical capacity of the EC to lead or participate to an overall policy dialogue must be strengthened if this is to be followed by improved programming. We therefore recommend an adaptation of the mandate and the staffing of the geographical units to permit them to lead and participate with credibility and effectiveness to formulation and negotiation of sound reform policies and to derive intervention strategies to support them.

In terms of professional capacity this requires that the geographical units have the staff in sufficient quantity and with the required qualifications in order:

- To follow permanently the local situation in order to analyse the economic and social developments and policies and to perceive the needs, constraints and issues;
- To be informed of and to understand and assess the objectives, constraints and intervention of other donors;
- To assess risks associated with various intervention options at a given stage of the reform;
- To identify the best use of available EC instruments;
- To propose intervention strategies
  - which address the most pregnant bottlenecks in the reform process and minimise the risk of rejection by the recipient
  - which keep into account EU political interests and EU enterprises interests;
  - which maximise effectiveness i.e. complementarities with other donors and among EC instruments.

For the moment the high proportion of relatively junior staff with no specific training on these issues and submitted to an excessively frequent changes of assignments limits this capacity although these factors are mitigated by an exceptional dedication of the task managers to their job. Other limiting factors are the absence of systematic documentation, studies and archives on the economic and social situation of the country and results of past interventions, and a limited support from the technical DGs.

Therefore our recommendation is that the geographical units develop the required analytical capability, that task managers are selected and trained in view of these functions and be kept in position for periods long enough to give them the necessary experience and the possibility of “investing” in their work. Mandates should be for a minimum of three or five years and transfer procedures and overlaps should be organised when task managers change. Sufficient documentation and analytical material should be maintained in the geographical units as well as systematic exchanges with the relevant technical DGs.

3.2 DISTRIBUTION OF RESPONSIBILITIES BETWEEN EC BRUSSELS, KYIV DELEGATION AND CU

Among the important cross-cutting issues a lack of clarity about the respective responsibilities of the various EC actors involved in the programming and distribution of Tacis aid has been evoked. We are conscious that our recommendations are formulated at the time were a major restructuring is taking place within the EC with the creation of a Common Service which would take over a number of functions related to the management of implementation and control of interventions in all the areas previously under the responsibility of DG VIII (assistance provided under the Lomé Agreements) and the various branches of DG IA (Phare, Tacis, programme MEDA, assistance to Latin America and Asia). Our recommendations are limited to the case of Ukraine, which is the sole object of this study, but they do not ignore this major change of context. They are guided by two principles:
• Keep in Brussels (geographical units) the responsibility to participate in the policy dialogue and to define intervention strategy. Locate in Kyiv, at the Delegation, the responsibility to identify projects, prepare ToRs, liaise and co-ordinate with other donors, liaise with monitoring, liaise with partner organisations and inform geographical units of progress of reform, evolution of programmes and projects. The ultimate responsibility for project preparation and supervision should be with the Delegation, where the TMs should be located. The ultimate responsibility for programming and negotiating assistance with the Ukrainians and the other donors should lie with the geographical units. In relation with our recommendation relating to the intervention at country level\(^94\), this implies that the preparation and negotiation of the proposed revolving three yearly Action Programme should be the responsibility of the geographical units while the Delegation should be responsible for the design of the components and the supervision of the execution. In this scheme, the role of a Tacis co-ordination unit is not evident if the intervention strategy is based on a policy dialogue led by the geographical unit and the Delegation takes over programming of components. The role of Co-ordination Unit as counterpart to decide on the trade-offs and the allocation of resources to sectors within the Action Programme would indeed not be justified any more. Ukrainian co-ordination of foreign aid (not limited to Tacis) should, nevertheless be encouraged and should be offered technical assistance if necessary, but a Tacis CU becomes difficult to justify.

• Maintain close links between programming and execution

Programming and execution are the two main steps of the Tacis Progress. They should be distinguished but not separated: execution provides information which may be very useful to improve programming and good programming makes execution and monitoring easier.

Improving the feedback from execution to programming is all the more important that the context changes very rapidly. Indeed, lessons from the execution phase concern most aspects of a successful Tacis programme: choice of partner organisations, adaptation of budgets to the activities required in a project; identification of new projects, particularly when Tacis intends to finance new projects in areas where projects are already going on.

3.3 On project preparation, implementation, management and monitoring

1° Improve the design of the projects

A major cause of problems identified in the monitoring reports and confirmed by this evaluation is the weakness of the terms of reference\(^95\). This raises immediately the question of the professional qualification of the EC services who draft these ToRs, or supervise the work delegated to consultant technical advisors. And since a geographical unit or a Delegation cannot be specialised in every domain it raises the issue whether EC limit its intervention to sectors where it can develop a “comparative advantage” because of existing in house capability or accumulated experience in other countries, availability of good experts in the member countries, or any other reason. The advantage of such approach would be to have a more professional intervention in specific sector; the obvious drawback is that nothing guarantees that the so called “comparative advantages” of the Commission services are those which are the most needed by Ukraine’s situation.

Our recommendation is therefore in line with the recommendations we made on the distribution of work and the reorganisation of the country programmes:

\(^{94}\) See Part I, section 4.2
\(^{95}\) See Part III, section 2.2.2
Recommendations

Evaluation of EC Country Programme in Ukraine

- Maintain good generalists in the geographical unit, as proposed above under §3.1(2°);
- Create a project preparation unit in the Delegation to prepare the terms of reference; this should be a group of specialised professionals with training in project preparation; in the context of revolving three year Action Programmes the number of sectors covered is limited and therefore there is no need to have a universal competence; the project preparation unit could be staffed with specialists seconded from the technical DGs, specialists from DG1a or consultants.

To ensure that projects are well prepared and lead to monitorable and successful achievements we recommend the following specific points:

- Design projects in view of the pursuit of objectives and achievement of results, rather than management of resources. A major implication is to introduce in every project objectively verifiable indicators of results. Where possible the contractual agreements should link provision of resources and payments to the achievement of these indicators. The duration of project should be adapted, and project could be segmented in subsequent phases. Move from one phase to the next one could depend on successful achievement of predetermined and verifiable indicators and the appreciation of the Tacis monitoring.

This recommendation is particularly important and must be linked to recommendation (2°) formulated under Section 4.2 of part I. The goal is to increase flexibility in the allocation of resources in order to achieve clearly defined objectives.

2° Implementation and management

- The objectively verifiable indicators of results, if not displayed in the ToRs, should be negotiated during the inception phase between the TM, the contractors, the beneficiary and the monitors. It should lead to an agreement and serve as a basis for the management of the project; reallocation of resources, within the budgetary limits, justified by the evolution and/or the achievement of the indicators should be possible without contractual amendment;
- Increase flexibility in the allocation of resources by making use of the three years programmes to reallocate resources across projects according to success and failures;
- Allow for longer projects when it is justified and develop procedures to stop or to re-orient during project life if necessary;
- Agree systematically with other donors and Ukrainian authorities on the procedures and the mandate to guarantee adequate co-ordination of complex projects; in particular make sure that there is always an identified co-ordinator;
- The EC should renegotiate with the Ukrainian authorities the “general rules” governing the delivery of its assistance.

3° Monitoring and evaluation

The external monitoring system is a real asset; to further improve it we recommend:

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96 See Part III, section 2.3.3
• To formalise role of monitoring system in the supervision of the terms of reference and the verification that they are monitorable;
• To formalise the participation of the monitors at the start of a project (kick off);
• to formalise the consultation of the monitoring team in the case of required extension of a project;
• To adapt the frequency of visits of the monitors to link it more to the problems encountered by projects.

Monitoring should be complemented by systematic evaluation, and the significant efforts already undertaken in this direction should be continued and strengthened:

• In the context of the recommended performance based sector projects recurrent interim evaluation of actions undertaken would provide the necessary inputs to decide on reallocation of resources or continuation of actions;
• Ex-post evaluations at sector and country levels should be conducted and systematic feedback’s organised to the geographical units;
• So far the monitoring system and the task managers do not assess systematically the professional quality of the work done by the contractors; a rating of the contractors could be implemented on the basis of an in house evaluation system to create; it should then be used in selecting contractors.
Annex 1: Methodological approach underlying qualitative analysis of projects

I. Information resources

In general for a particular project the team has attempted to consult the following documentation and to interview the resources persons insofar as they were available.

Written documentation:

- TORs,
- Contractant’s reports: methodology, inception report, progress reports, completion report, final report,
- Reports of the Tacis Monitoring Team (report on inception report, monitoring reports, end of project report),
- Other evaluation report relevant for the project under review (Court of Auditing, Interim Evaluation of Tacis),
- Other donors as well as general relevant documentation on the sector and its background.

Resource persons:

- Sector expert of the CU
- Project officer of the Delegation
- Sector expert of the Monitoring Team
- Contractor
- Partner organisations
- Beneficiaries
- Task managers in Brussels.

II. Questions addressed

For all the projects analysed the team has attempted to obtain information, through the consultation of written source and/or direct interview with relevant actors or beneficiaries, on the following set of questions covering all the components of an agreed evaluation grid:

I. Relevance

Where the programme/project and its objectives relevant to the overall objective of Tacis (stimulate the transition process to a market economy)?

1.1 What were the macro-economic and sector situations at the outset of the project (set of projects)?
1.2 What were the overall objectives and the problems to address at the time of the identification of the project? Were they clearly identified?
1.3 What were the economic policy and institutional backgrounds? Where the Government priorities identified? How have situations and priorities evolved over time?
1.4 What were the assumptions, risks and conditions which should have been taken into account at the outset of the programmes? Have they been correctly anticipated? What happened? What is the situation now?

1.5 How did this project come in the action programme (who identified it and how did it evolve between identification and introduction into action programme?)

1.6 What use was made of lessons and outputs from other Tacis projects to assess the relevance of the objectives? (Question for CU, Deleg. And/or task manager).

2. **Appropriateness**

*Was the design of the project appropriate to achieve the specific objectives?*

2.1 Was this project meant to contribute alone to the objectives or was it complementary to other actions (possibly by other donors)?

2.2 Which specific objectives have been assigned to the project and its components? In particular how was the progress of the transition from a command economy to a market economy assessed and how were the constraints and issues imposed by the current state of the transition perceived and included in the design of the project?

Was the project fully designed in the contracting document or has the design been progressively built up along implementation? Did the project design evolve over time? How were the adaptation brought in (see also 1.4)?

2.3 What were the expected results? Who where the intended direct (partner organisation) and final beneficiaries?

2.4 Which financial resources have been allocated to the project?

2.5 What were the instruments envisaged and the planned actions and interventions?

2.6 Is the project making use of facilities? Which ones?

2.7 What was the involvement of the beneficiaries in the design of the project (preparation of the ToRs, etc.)?

2.8 Who and how identified the partner organisation? What where the arguments invoked for this selection?

2.9 What use was made of monitoring and evaluations reports of similar projects and/or of Tacis experience to design the project?

Focus on all elements which can put in evidence the appropriateness (of the lack of it) of the project design to achieve results (i.e. reform).

If facilities are included in the design of the project, review the elements which permit to assess how much this improved the project design: did it increase flexibility, reduce the length of the project cycle?

3. **Effectiveness**

*Means: did the programme/project effectively deliver what was expected?*

3.1 Organisation: institutional arrangements and delivery mechanisms. Is the institution managing the project the same as the partner organisation? If not, is the partner organisation simply an executive agency for the project or a real beneficiary? (See also 2.3, 2.7 )

3.2 If facilities have been involved: what was there contribution, how have they been operated?

3.3 Articulation with other EU interventions, and other assistance agencies’ actions.

3.4 Links with other Government and non Government organisations which may benefit from the programme or whose actions may influence it significantly.

3.5 Activities conducted (with dates), evolution of contracts and disbursements.

3.6 Involvement of the direct and final beneficiaries.
3.7 Main output of programme (institution building, transfer of managerial and/or professional know how, human resource development, etc.)
3.8 Results achieved (mentioning whether these can be measured against pre-fixed monitoring indicators and evaluation criteria) and comparison with expectations.

For the facilities their impact on effectiveness must also be assessed through:

- have they effectively been used?
- did they effectively render the services expected?

4. **Efficiency**

Was the project designed and managed so as to make an efficient use of aid resources (cost efficiency, rational use of staff and equipment, etc.)?

4.1 Support from Government and institutions and from Delegation, Tacis operational services and the Tacis M&E system.
4.2 Use of financial resources and cost of activities.
4.3 Execution monitoring and evaluation.
4.4 Performance of procedures (and facilities)
4.4.1 What is the reaction of the TM (and the management team) to the remarks and suggestions of the Tacis monitoring team?

Regarding facilities: focus on how the use of the facility permitted to increase efficiency (reduction of cost -financial, time, etc. - for the beneficiary and/or the management team)

5. **Impact**

Did the project change something in the reform process (was policy advice followed by better decisions, feasibility studies by better investments, etc.)?

Questions should be adapted to the type of project:

**Policy advice, studies, work on improvement of information systems, etc.**

5.1 Which use and by whom is made of the project results (is advice used in formulating decision, are studies followed by actions, is information generated found useful in the reform process)?
5.2 What is the appreciation of the users?
5.3 If no impact, what are the reasons quoted?

**Training**

5.4 Did the beneficiaries learn something they find useful?
5.5 Did the beneficiaries change something in their work practices? Or where they simply interested but could not, or did not wish (then explain why), change their ways of doing things?
Institution building

5.6 Did the project result in effective institutional changes?

Intervention in productive sectors

5.7 As above, plus
Did technology transfers and transfer of professional know how took place?

6. Sustainability

Are the changes induced by the programme/project sustainable after the end of the technical assistance?

6.1 What is the viability of what has been undertaken once the financial and TA support is terminated?
6.2 In case of non sustainability, should a longer support have been able to lead to sustainability?
6.3 In case of non sustainability is it linked to:
   - unwillingness of the PO/beneficiaries for political reasons or lack of appropriation;
   - lack of financial resources;
   - economic environment.
6.4 Where these elements foreseeable and how have they been taken into account into the “phasing out strategy” of the donor?
6.5 Can the possible lack of sustainability be linked to a lack of phasing out strategy (project design problem) or to the materialisation of a risk which has been properly (or unproperly) anticipated?
ANNEX 2: SEQUENCING OF PRIVATISATION IN UKRAINE

PERIOD BEFORE THE 1994 ELECTIONS:

1991-1993 Introduction of legislation and institutions making privatisation possible and initiation of the privatisation process:
- Creation in 1991 of the State Property Fund placed under the authority of the Rada.
- Privatisation law of 1992, defining 5 categories of enterprises: A: small, B: medium, C: large, D: enterprises which are either very large, in monopolistic position, military under conversion and other strategic enterprises, E: unfinished structures.

The first step has been the transformation of ownership which started immediately after the declaration of independence. All former Soviet state and municipal enterprises became property of the Ukrainian State and were corporatised (under the responsibility of the Ministry of Economy) into State-owned joint stock companies in order to permit their privatisation (under the responsibility of the SPF, who had no decision power on which individual enterprise to privatise, and following a method decided by a commission including the SPF and various institutions). Main forms of privatisation were non-competitive methods (management/employee buyouts and leasing to employees).

Jan. 1994 Initial mass privatisation programme approved by Verkhovna Rada, based on allocation on a book entry system (privatisation accounts) with share allocation organised by the enterprise itself once its corporatisation was completed. The system proved unable to accelerate significantly the privatisation.

FROM THE 1994 ELECTIONS TILL END 1997:

July 1994 The new elected Parliament suspended privatisation for large and medium scale enterprises due to the lack of transparency of the auction process.

1994 The SPF is transferred under the government authority, but the appointment of his president has to be approved by Parliament.

Oct. 1994 After presidential election of 10th July 1994, the new government designed a new mass privatisation programme with centralised shared allocation and introduction of non-tradable vouchers. The SPF is made responsible for corporatisation and privatisation.

Feb. 1995 The Supreme Rada enacted a negative list of 6300 enterprises which cannot be privatised. The list has been subsequently amended (Nov. 1996) with 1400 enterprises delayed and 500 added, bringing it to about 5400 enterprises.

1995 The City council privatisation authorities are placed under the authority of the central SPF.
Annex 2: Sequencing of privatisation in Ukraine

Evaluation of EC Country Programme in Ukraine

Aug. 1995  Presidential decree authorises privatisation of the land on which enterprises premises are located. This land, which was leased on long-term basis to privatised enterprises, is not part of the voucher programme and must be sold for cash after privatisation.

Jun. 1995  Presidential decree states a positive list of 8000 middle and large enterprises subject to mandatory privatisation. Out of this list 4000 enterprises belong to the agro-industrial complex, but enterprises engaged in storage, transport and distribution of agro-food products are excluded and governed by special rules; as a consequence grain trade remained under state monopolistic control.

Sep. 1995  A new law on privatisation of agro-industrial sector enterprises (including the 4000 mentioned above) requiring 51% ownership of these enterprises by collective farms (implying thus a consolidation of the agro-industrial complexes) passed second reading in Parliament, was vetoed by the President, but the veto was overruled and the law eventually adopted in July 1996.

Mar. 1996  Presidential decree states that the voucher privatisation process has to be completed by the end of the year. The deadline for the collection of privatisation certificates is fixed at 1st July and the dead line for turnover of the certificates at 1st December. These limits were postponed three times, the latter being now extended to July 1998. Incentives are offered to managers who comply with privatisation procedures within deadlines in the form of an extra preferential share allocation.

May 1996  Presidential decrees adapts procedures and reduces from 12 to 4 months time required to privatise agro-industrial enterprises.

Aug. 1996  A presidential decree gives SPF the status of a Ministry.

1996  On average 300 companies per month were auctioned through privatisation and compensation vouchers and though commercial tenders and cash auctions.

July 1996  SPF announced completion of mass privatisation for small enterprises. Council of Ministers issued two orders to prepare next stages of privatisation to relay mass privatisation in 1997: an order regulating sale of shares of large enterprises under investment commitments, and a list of 208 (later extended to 260) strategic enterprises to be privatised according to individual plans set by the Council of Ministers.

Dec.1996  New law on privatisation of large-scale companies places SPF under the control of the Parliament and allows to conduct privatisation only on the basis of the normative and legislative acts approved by the Parliament, and abolishes all reference to strategic investors. The law was vetoed by the President in February 1997, the Parliament overruled the veto and the law was finally adopted. The institutional status of SPF remains unclear in many respects, and the legality of certain departments is contested by Parliament, blocking all decision until formal legalisation takes place.

Apr. 1997  Parliament approved the 1997 privatisation programme including 1440 medium sized enterprises and a list of 228 large enterprises to be sold by tender to foreign investors.

97 Compensation vouchers have been introduced to compensate savers for the erosion of their savings. They be used to buy shares of enterprises offered by the SPF which remain unsold following the main auctions. Contrarily to privatisation vouchers, the compensation vouchers are tradable and there is no minimum price set at the auctions.

98 As an example, the department of cooperation with international financial institutions and monitoring of technical assistance, responsible for all external assistance, was legalised only on 26th January 1998.
By end April 1997 it was estimated that:

- 38,500 out of 45,000 small enterprises have been privatised, about 15,600 of which in 1996.
- 9,600 of the 18,000 medium and large enterprises have been privatised (of which 6,300 completely, i.e. with more than 70% of shares sold to private owners)

Data relating to the 20,000 enterprises privatised in 1996 indicate that 11,500 were sold by competitive methods (auctions, tenders and sales of shares) and the balance by non competitive methods (buy-outs and leasing). 300 enterprises were sold for cash through the stock exchange.
ANNEX 3: MANAGEMENT AND ORGANISATION OF THE TACIS PROGRAMME

1. INSTITUTIONAL SETTING AND DECISION FRAMEWORK

The Tacis Programme is a European Union initiative for the New Independent States and Mongolia meant to foster the development of harmonious and prosperous economic and political links between the European Union and these countries. It is a “demand-driven” programme supporting the partner countries’ initiatives to develop societies based on political freedoms and economic prosperity. Tacis assistance takes the form of grants.

1.1 Legal and financial framework

Tacis national programmes are in keeping with an overall legal and financial framework whose main component are “Regulations concerning the provision of assistance to economic reform and recovery in the New Independent States and Mongolia” adopted by the European Council.

The Council Regulation N° 1279/96, replacing previous regulations N° 2157/91 and 2053/93 which covered the 1991-1993 and 1994-1995 periods, lays down the principles on which the European Union offers economic assistance to the Tacis partner countries.

This regulation states (art. 1.2) that “assistance shall be concentrated on sectors and, where appropriate, on geographical areas in which the partner States have already taken concrete measures to promote reform and/or for which they can present a time-schedule.” Indicative areas of concentration are Human Resources Development, Enterprises Restructuring and Development, Infrastructure, Energy including Nuclear Safety, Food Production, Processing and Distribution, Environment.

Whereas previous regulations strictly restricted the utilisation of Tacis budget to the funding of technical assistance, including the cost of supplies required for its provision, the 1996 regulation allows for some financing of small scale infrastructures as well as for the funding of equity investments in small and medium-sized enterprises (art. 3.2 and 3.3). The allocation to these activities shall however not exceed 10% of the annual Tacis budget (art. 3.4).

The regulation summarily describes the successive steps along the process of preparation and implementation of Tacis, indicating which is the role of the various actors involved in this process. In particular, the demand-driven character of Tacis interventions is stressed in the regulation which indicates that operations financed under Tacis “shall be selected taking into account, inter alia, of the recipient’s preferences”, but also “on the basis of an assessment of their effectiveness in achieving the objectives aimed at by the Community assistance.” (art. 3.8). Implementation of the assistance shall, as far as possible, be decentralised (art 3.9).

The Tacis programme is funded from the European Union’s budget. Tacis regulations indicate a global envelope for the whole period covered. Every year an overall sum is made available for Tacis by the European Parliament and the Council of Ministries acting as the Programme’s budgetary authorities. The European Commission decides on the allocation of these funds between the different countries and sectors.

The legal basis for the award of contracts under Tacis relies on the above mentioned Tacis regulations. Other relevant regulations are the Financial Regulation applicable to the general budget of the European Community Title IX, External Aid, and the General Regulations and Conditions for the supply and service contracts.

1.2 Actors involved

Various institutions intervene in the design and implementation of Tacis operations.

- The European Parliament and the Council of Ministers decide on the legal and financial framework of Tacis operations.

- A Committee for Assistance to the New Independent States and Mongolia (commonly known as the Tacis Committee) in which all member states are represented, examines Tacis medium-term and annual programmes before financing proposals are passed to the Commission for approval.

If a programme would be rejected by the Tacis Committee the Commission would have to redesign it in line with the Committee’s observations or to pass it to the Council for arbitration.

- The European Commission is responsible for the on-going management of the Programme including overall direction, programming and implementation. These tasks are carried out within the Directorate General for External Political Relations (DG IAA) by the Directorate for Relations with the NIS and Mongolia (1.A.C) and by the Commission’s Delegations in the partner countries where there is one. Relations with the Ukraine are taken in charge by Unit C.3, which is also dealing with Moldova and Belarus, and by the EC Delegation in Kiev.

In September 1997 seven Task Managers had operational responsibility within Unit C.3 of DG1a for the formulation, programming and implementation of the Tacis projects in Ukraine, Belarus and Moldova. Each of them is in charge of a defined sector or sub-sector. Among these Task managers, who have a similar function, one is assigned the responsibility for co-ordinating the programme for Ukraine but all are individually answerable to the Head of Unit.

At the same time the Technical Assistance Section of the EC Delegation in Kiev was employing 10 experts including the Head and Deputy Head of the section.

- In the partner countries a Co-ordination Unit is set up by the government with the support of Tacis. It is placed under supervision of a National Co-ordinator who is a high ranking official. The Co-ordination Unit is the main local partner of the European Commission for the design of Tacis programmes. One of its important task is to screen the projects submitted by Ukrainian institutions for submission in the Tacis programme.

Before the creation of a EC Delegation in Kiev, the Co-ordination Unit was the only permanent institution on which the Commission could rely in Ukraine for the preparation of Tacis projects. Accordingly the CU benefited from a relatively large support from the Commission through the provision of technical assistants. Since a EC Delegation has been established the usefulness of the CU to the Commission has diminished and hence the support from the Commission.
Formally, in line with the demand-driven character of Tacis, all projects included in Tacis programmes should originate from the Co-ordination Unit. Over time this evolved and the elaboration of the annual Action Programme is increasingly a “dialogue driven” approach. The CU must formally endorse all projects included in the Tacis programme while the Financial Memorandum associated to the annual Tacis Action Programme is signed by the National Co-ordinator. Therefore Task Managers have to sell their proposals to the Co-ordination Unit. On the Ukrainian side, the Deputy Minister responsible for technical assistance within the National Agency for Reconstruction and Development expressed the view that the Tacis programme is the most transparent of all donor-funded TA programmes.

Since 1996, the Co-ordination Unit in Ukraine has been constituted as an integral part of the newly created National Agency for Reconstruction and Development which co-ordinates relations of Ukraine with all donors. Head of the National Agency, who is at the same time the National Co-ordinator for the Tacis programme, has rank of a minister and is reporting directly to the Prime Minister.

1.3 Preparation and implementation of the National Programme

Three successive steps may be considered in the process of preparing and implementing Tacis national programmes: Determination of a medium-term strategy for Tacis support; Design of Action Programmes; Implementation of Action Programmes.

Determination of a strategy for Tacis support

From 1993 onwards the first step in the preparation of Tacis interventions is the design of an Indicative Programme. This document is prepared by the European Commission in co-ordination with the partner country represented by the Co-ordination Unit and the National Co-ordinator who should contribute to its design through the supply of a pre-programming document.

Whereas the first Indicative Programme for Ukraine covered a three year period (1993-1995), the most recent one covers a four year period (1996-1999) in accordance with the prescription of the Tacis regulation. I.P. set out the basic objectives and strategy for Tacis in the partner country on the basis of a joint assessment of medium-term priorities of economic reform. They determine the sectors where Tacis support can be used more effectively.

Indicative Programmes are scrutinised by the Tacis Committee. They are signed by the European Commission and the partner country represented by the National Co-ordinator.

Annual programming

The annual planning of Tacis operations to be financed within an annual budget starts with the design of a country strategy and of a sector strategy both reflected in a selection of projects. These projects are summarily described and their cost evaluated.

The outcome of this preparatory work is a document, denominated Action Programme, presenting the country and sector strategies, the projects which, in relation to this background, the European Commission intends to include in its annual programme and an overall cost estimate. Annexes provide a break-down of the overall annual budget by sectors and projects and a description of the projects included. The 1996 Tacis regulation states that for each project above ECU 1 million, a project sheet shall be attached to the Action Programme and that a logical framework matrix shall be attached for all projects above ECU 3 million.
The Action Programme is submitted for comments to the Tacis Committee. Once the Committee has delivered a favourable opinion, the formal approval by the European Commission of the Action Programme and of its financing implications prompts the commitment of the corresponding budget.

After the Commission’s financing decision has been taken a Financing Memorandum is signed by the Commission and the Partner Country represented by the National Co-ordinator.

**Implementation of the Action Programme**

The implementation of the annual programme starts with the preparation for each project of tender documents containing detailed Terms of Reference. ToRs are prepared by Tacis Task Managers, frequently with the assistance of consultants and in co-operation with experts of the EC Delegation and of the Co-ordination Unit. The ToRs state precisely which will be the local Partner Organisation co-operating with the contractor, which will be its contribution to the project, which inputs have to be supplied by the contractor and which outputs are expected from the implementation of the project. Partner organisations express their commitment to the project through the signature of a Statement of Endorsement.

Tenders are then issued to a short-list of selected firms or organisations. The bids supplied by these potential contractors are evaluated by a commission convened by the European Commission. A contract is awarded to the successful contractor who can then start the implementation of the project.

Monitoring Units have been established, of which one in Kiev covering the Ukraine, Moldova and Belarus. These units consist of external experts contracted by the Commission under the Tacis budget. As a matter of principle each team is bilateral with one Western expert and one from the partner country. They carry-out systematic on-the-ground monitoring of Tacis projects.

A first monitoring report takes place three to six months after the implementation start of a project. This “Inception Report” may suggest some modifications of the Terms of Reference, which then have to be agreed upon by the Task Manager and the Partner Organisation. Monitoring reports take place normally twice a year during the whole implementation period of the project; if monitors ascertain that difficulties arise in the implementation of the project, what ever their cause, they have to recommend actions to be taken by the contractor and/or the Task Manager. When a project is completed, the monitors issue an “End Report” which provides a global assessment of the project as regards the overall contractor’s performance, the contribution of the partner organisation to projects results, the results achieved against agreed outputs, the appropriateness of the project for the partner organisation, the achievement of the project specific objectives and the expected sustainability of the project achievements. On request of the Task Manager a follow-up monitoring can also take place even after the support of the EU is over.

**1.4 Delays**

According to the Tacis management guide, the delay elapsing from the first stage of the preparatory work of an Action Programme to the implementation start of projects financed within this programme, should last about one year.

The guide divides this theoretical duration in the following way:

- Preparation of country and sector strategies : 1.5 month
- Identification, selection and cost estimate of projects : 2 months
- Submission of Action Programme to the Tacis Committee : 1 month
- Signing of the Financing Memorandum by the Government : 1 month
- Preparation of tender documents : 1 month
- Tendering procedure : 2.5 months
Contract negotiation, award, signature : 0.5 month
Upon award, mobilisation of experts : 1.5 month

This means that, with a preparatory work of the Action Programme for year N starting in October N-1, the implementation of projects would start at the earliest in September N. Actual delays seem to be significantly longer. Three projects of the 1996 budget dealing with economic reform and private sector development for which we have been provided with precise information on the preparation time-table exhibit the following results:

Completion of the Terms of Reference : December 1996 to February 1997
Tender launch: February to April 1997
Evaluation of bids : April to July 1997
Contract date: July to September 1997

In these three cases contracts related to projects included in the 1996 Action Programme have been awarded only during the third quarter of the following year, the total delay from the starting point of the preparation process to the award of contracts reaching 18 months to nearly two years. This delay should be significantly reduced for the 1998 Action Programme, notably through an early preparation of the ToRs.

The chart on the next page illustrates the Tacis Management Process and the various steps and actors involved.
# Annex 3: Management and Organisation of the Tacis Programme

## Evaluation of EC Country Programme in Ukraine

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ANNEX 4: TERMS OF REFERENCE