

Principles of development cooperation between Estonia and Ukraine 2016



VÄLISMINISTEERIUM



EESTI
ARENGUKOOSTÖÖ

Foreword

Ukraine has been a priority partner country for Estonia's bilateral development cooperation since 2006. Ukraine was also the first beneficiary country in 1998, when Estonia started to provide bilateral aid. In total, Estonia has contributed more than 6 million euros to support the development of Ukraine, out of which 3.8 million euros were allocated in the period of 2014–2015.

Ukraine is also a priority country for Estonia in the new period of the Strategy for Estonian Development Cooperation and Humanitarian Assistance for 2016–2020 (hereinafter *the Strategy*) and all the principles of the Strategy apply to this cooperation.

The more general goal of country strategy documents is to make the activities of development cooperation more efficient and within the framework of long-term cooperation more predictable. The main goal of development cooperation between Estonia and Ukraine is to help to develop a stable, democratic, transparent and inclusive society in Ukraine. With a view to enhance cooperation, the Development Co-operation and Humanitarian Aid Division of the Ministry of Foreign Affairs, in collaboration with other structural divisions of the Ministry of Foreign Affairs, authorities and representatives of cooperation partners, have prepared the document "Principles of development cooperation with Ukraine in 2016".

These principles help to better direct Estonia's development cooperation with Ukraine, taking into account the needs and development priorities of the country, opportunities and capacities of Estonia, including also cooperation related experience gained so far. On the basis of the principles, it is planned to develop a long-term country strategy for Ukraine, the prerequisites of which are solving the conflict and achieving political stability. Until the completion of a country strategy, the key aspects will be reviewed annually and will be updated according to the priorities and needs of Ukraine and our own possibilities and capacities.

Overview of previous cooperation

The main fields of cooperation, in which Estonia has shared its experiences and expert knowledge, have been regional development, development of civil society, support for democratic state structures, introduction of ICT solutions in public administration, education and sustainable economic development. Specifically in the past years, cooperation in the field of education has intensified. In addition, Estonia has supported training of Ukrainian officials in the Estonian Center of Eastern Partnership (ECEAP), as well as scholarship programs for students in Estonian universities. The most common forms of cooperation have been the projects aimed at strengthening the capacities focussing on technical cooperation, training and counselling in the so-called softer fields, where Estonia can pass on its experiences regarding reforms or best practices.

Over the years, the project activities have been implemented both at the central government level and regional level in Chernihiv Oblast, Ivano-Frankivsk Oblast, Lviv, Kharkiv and Dnipropetrovsk region. Development cooperation projects have also been implemented in Lugansk and Crimea.

The fields of development cooperation between Estonia and Ukraine have been dependent on the interest of Estonian partners, capacity and local contacts. It can also be expected in the future that activities in more narrow fields of cooperation will depend on the existence of interested partners in

Estonia. An important cooperation channel is the Estonian Center of Eastern Partnership, whose activities fostering the Eastern Partnership countries will be financed by the Ministry of Foreign Affairs through operational supports.

In relation to the series of political events which started in Ukraine in 2014, Estonia's support to Ukraine increased three times in the same year, compared to 2013. Along with humanitarian aid and support for civil missions and international organisations, the total aid peaked at approximately 1.3 million euros. In 2014, Estonia's aid to Ukraine represented more than 10% of the Ministry of Foreign Affairs' budget for development cooperation and humanitarian assistance. In 2015, the aid provided to Ukraine increased almost twofold – 2.35 million euros were allocated for assistance to Ukraine, constituting nearly 20% of the total budget for development and humanitarian aid. This amount was divided into two parts: 1.1 million euros for development cooperation and 1.25 million euros for humanitarian aid. (See Annex 2 "Estonia's aid to Ukraine in 2014" and Annex 3 "Estonia's aid to Ukraine in 2015"¹)

Current situation in bilateral cooperation

Estonia, as an EU member state, favours active commitment of the EU regarding Ukraine, and also supports the EU's neighbourhood policy and Eastern Partnership with its activities related to development cooperation, which are based on the EU-Ukraine Association Agreement signed in 2014 (hereinafter *the Association Agreement*). At the same time, it is important to take into consideration the political context influencing the development of Ukraine where, in addition to the need for the implementation of reforms, no solution has been found to the military conflict in Eastern Ukraine that had started in 2014 and has caused a deteriorating humanitarian situation along with an abrupt increase in the number of internally displaced persons². Therefore, support for internally displaced persons and receiving communities by the international humanitarian community is still needed.

A year after the conclusion of the Association Agreement, a complex reform process has been commenced at the central government level, where international support is expected. The Association Agreement determines the priority reform areas of Ukraine: constitutional reform, the fight against corruption, judiciary reform, public administration reform, taxation reform, energy, public procurement and external audit. The Ukrainian central government is advised and supported by several large donors and international financial institutions, e.g. European Commission, USAID, SIDA, World Bank, EBRD, European Investment Bank. Thus, Estonia's cooperation with limited resources must fit in with the current activities, correspond to the development priorities of the Ukrainian government and also provide supplement and added value to the ongoing broad-based processes.

While planning the activities related to cooperation, Estonia has put main emphasis on activities facilitating the implementation of the Association Agreement, supporting the implementation of reforms initiated by Ukrainian government and, above all, the development of democracy and the measures that strengthen state structures and contribute to the fight against corruption. It is

¹Annex 3 is added to the document at the 1st quarter of 2016

²According to the data of the UN Office for the Coordination of Humanitarian Affairs (OCHA), 1.5 million internally displaced persons were registered in October 2015, in addition to 1.1 million people who have left Ukraine.

important to support the introduction of e-governance and ICT solutions. It is important to increase sustainability and impact in the previously supported fields that overlap with the goals set in the Association Agreement. These involve regional cooperation, promoting education, contributing to economic development and the empowerment of civil society. Estonia provides added value by sharing its reform experiences both through bilateral and multilateral programmes and cooperation. Collaboration with the central government is essential in light of Estonia's visibility, but taking into consideration the financial capacity of Estonia, with regard to Ukraine's wide-ranging needs, it would certainly be expedient to continue cooperation with local governments where cooperation can provide more added value.

There are possibilities for intensified cooperation in the field of agriculture. The Ministry of Rural Affairs has made preparations to commence cooperation. Activities contributing to fisheries and implementation of sanitary and phytosanitary requirements are set out as fields of possible collaboration. In addition, Estonia can also provide added value in the field of health care, taking into account the needs of Ukraine and relying on Estonia's reform experiences and progress made so far in implementing health care projects in the other priority countries.³ One of the possible fields of interest can also be the energy sector, where Estonia has so far contributed mainly through multilateral cooperation. The energy sector is characterised by a multiplicity of donors and international financial institutions and thus Estonia's contribution in this field should be complimentary. Therefore, it would be expedient to implement energy projects in cooperation with other international donors. At the same time, while developing such cooperation, the goals related to increasing energy security and ensuring security of supply must be obeyed, supporting the activities which help to increase the proportion of alternative energy. In this case, activities related to health care and energy can be viewed as pilot activities and these development trends should be taken into further consideration while updating the principles.

Support to sustainable economic development must be in line, above all, with the Deep and Comprehensive Free Trade Agreement (DCFTA) between the European Union and Ukraine, which is to be implemented on 1 January 2016, and must concentrate on activities related to the implementation of the aforementioned Agreement, in particular to the support of business environments and agricultural development.

At the same time, it is important to keep in mind that due to the military conflict in Eastern Ukraine in the past two years, Estonia has provided mainly humanitarian assistance in order to alleviate the situation of internally displaced persons and affected people. After the stabilisation of the situation, more attention will be paid to restoration and reconstruction in Ukraine through bilateral and multilateral cooperation. Therefore, in 2016 a part of the Ukrainian humanitarian aid budget is aimed at financing the activities of development cooperation.

³ In the Strategy, the target level of the field of health care has been set at 5% for the period of 2016-2020.

Priority areas of Estonia's development cooperation in Ukraine in 2016

1. Development of democracy and promoting good governance

- 1.1 activities contributing to reform processes, including e-governance and the implementation of ICT solutions in public administration;
- 1.2 fight against corruption;
- 1.3 support for regional development, including cooperation with the units of local government and promotion of community policy;
- 1.4 engagement of civil society in governance and in shaping of reform processes, improvement of participatory democracy and the capacity to participate in good governance.

2. Supporting business environment

- 2.1 simplification of the regulatory framework and increasing transparency using means of ICT solutions which are beneficial for both citizens and companies;
- 2.2 activities contributing to the creation of new jobs;
- 2.3 development of start-ups;
- 2.4 support for the development of agriculture.

3. Supporting education

- 3.1 enhancement of the educational system;
- 3.2 bringing the educational system into compliance with the needs of the labour market;
- 3.3 development of the curricula;
- 3.4 introduction of ICT solutions in the educational system.

The mentioned areas correspond to the goal set in the Strategy– contributing to the eradication of poverty and achievement of the goals of sustainable development. In compliance with the Strategy, the general topics for Ukraine-related cooperation in 2016 are environmental sustainability, human rights and gender equality (including empowerment of women). E-governance and ICT solutions will be supported throughout all the areas in Ukraine. The main goal of multilateral cooperation is to ensure human rights, peace and stability and to support environmentally sustainable development (approximately 10% of the budget allocated to development cooperation related to Ukraine). In addition, financing of microfinancing projects in priority areas shall continue, that aim at a speedy and efficient response to the needs of Ukraine, supporting, in particular, capacity-building of Ukrainian civil society organisations (approximately 3% of the budget assigned to development cooperation related to Ukraine).

In 2016, the budget assigned to development cooperation related to Ukraine will increase to 1.2 million euros and up to 1 million euros will be allocated for humanitarian aid on a needs-based approach.

Recommended budget for development cooperation between Estonia and Ukraine for 2015-2016 (€)⁴

<i>Development priority</i>	<i>2015</i>	<i>2016</i>	<i>Total 2015–2016</i>	<i>%</i>
<i>Development of democracy and good governance</i>	<i>495,000</i>	<i>540,000</i>	<i>1,035,000</i>	<i>45</i>
<i>Economic development</i>	<i>240,000</i>	<i>266,000</i>	<i>506,000</i>	<i>22</i>
<i>Education</i>	<i>270,000</i>	<i>259,000</i>	<i>529,000</i>	<i>23</i>
<i>Other⁵</i>	<i>95,000</i>	<i>135,000</i>	<i>230,000</i>	<i>10</i>
<i>TOTAL (€)</i>	<i>1,100,000</i>	<i>1,200,000</i>	<i>2,300,000</i>	<i>100</i>

⁴ Resources of the Ministry of Foreign Affairs assigned for development cooperation and humanitarian assistance

⁵ *Other* – includes health care; activities contributing to peace and stability.

Annex 1. Development of Ukraine

Ukraine is located in Eastern Europe and is bordered by the Black Sea and Sea of Azov on the east and southeast, respectively. Neighbouring countries are Russia, Belarus, Hungary, Slovakia, Poland, Romania and Moldova. Ukraine has an area of 603,628 km², making it the largest country within Europe. The population of Ukraine is approximately 45 million, about 80% of the population are Ukrainians. The biggest other ethnic groups are Russians (approximately 17%), Belarusians, Hungarians, Bulgarians and Crimean Tatars. The official language of Ukraine is Ukrainian.

The current political, economic, social and security situation of the country must be seen in the light of the military conflict that is still going on in Ukraine. After the riots which broke out in the end of 2013, the Russian Federation illegally annexed the Crimean Peninsula in February of 2014, and the conflict in Eastern Ukraine is still ongoing.

The OSCE Special Monitoring Mission (OSCE SMM) is observing compliance with the Minsk agreements concluded for the purpose of finding a political solution to the conflict in Eastern Ukraine. A political dialogue for the solution of the Eastern Ukrainian conflict is being held by Ukraine, Russia, Germany and France within the so-called Normandy format.

The deadline for the implementation of the package of measures of the Minsk agreements, which had been prepared in February 2015, was initially the end of 2015. With regard to the organisation of the elections of local governments in a temporarily occupied territory, this deadline was postponed to 2016 in the course of negotiations within the Normandy format. As of the end of 2015, most of the agreements have still not been fulfilled, e.g. Ukraine has not been granted control over its state border and Russian troops have not been withdrawn. According to the OCHA report in October, there are more than 1.5 million internally displaced persons and pursuant to UN data, the conflict has claimed over 9,000 lives.

Due to the conflict, the political situation in Ukraine has been rather hectic in the period of 2014–2015. Within a year and a half, national elections took place three times: extraordinary parliamentary elections, presidential elections and elections of local governments. The OSCE/ODIHR gave a positive opinion concerning the elections observed in Ukraine.

According to the data of the World Bank⁶, Ukraine's GDP per capita was 8,665.5 US dollars (PPP) in 2014 and Ukraine is classified under countries with lower middle income⁷. According to the IMF's economic forecast, the economic recession in Ukraine in 2015 will be 9% and inflation 50%. In 2016, inflation will be 14% and economic growth 2%, according to the forecast.

As is the case for many other countries that became independent after the collapse of the Soviet Union in 1991, and due to the conflict, there are still many shortcomings and deficiencies in the development of Ukraine. The analysis of the international think tank Freedom House envisages the development trends of Ukraine in several fields related to democratic governance (on the scale of 10):

⁶ <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>

⁷ The Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) list of the official development assistance (ODA) recipients. <http://www.oecd.org/dac/stats/49483614.pdf>

Nations in Transit Ratings and Averaged Scores

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Electoral Process	3.25	3.00	3.00	3.50	3.50	3.50	3.75	4.00	4.00	3.50
Civil Society	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.50	2.25
Independent Media	3.75	3.75	3.50	3.50	3.50	3.75	4.00	4.00	4.25	4.00
National Democratic Governance	4.50	4.75	4.75	5.00	5.00	5.50	5.75	5.75	6.00	6.00
Local Democratic Governance	5.25	5.25	5.25	5.25	5.25	5.50	5.50	5.50	5.50	5.50
Judicial Framework and Independence	4.25	4.50	4.75	5.00	5.00	5.50	6.00	6.00	6.00	6.00
Corruption	5.75	5.75	5.75	5.75	5.75	5.75	6.00	6.00	6.25	6.00
Democracy Score	4.21	4.25	4.25	4.39	4.39	4.61	4.82	4.86	4.93	4.75

Source: Freedom House, Ukraine Nations in Transit report: https://freedomhouse.org/sites/default/files/NIT2015_Ukraine.pdf

The most complicated situation concerns legal reforms and fight against corruption. The international anti-corruption network Transparency International ranked Ukraine 142nd out of 174 countries on its Corruption Perceptions Index in 2014⁸. So far, the greatest progress has been made regarding economic reforms, e. g. the laws regulating the gas market, restructuring the banking system and the creation of e-databases.

Regardless of the complex situation, Ukraine has actively continued to implement the reforms that are necessary for European integration. The European Union supports Ukraine within the framework of Eastern Partnership. In 2014, the Deep and Comprehensive Free Trade Agreement (DCFTA), as a part of the Association Agreement (AA), was finally signed. The DCFTA will be implemented from 1 January 2016.

Ukraine has largely adopted the laws that are required for compliance with the Visa Liberalisation Action Plan and has started with the implementation processes. In December 2015, the European Commission issued a positive report on the progress of Ukraine within the Action Plan.

⁸ <http://www.transparency.org/cpi2014/results>

Annex 2. Estonia's aid to Ukraine in 2014

Estonia's aid to Ukraine in 2014

Multilateral aid in total amount of 308,160 euros: Support to the OSCE for deployment of a special mission in order to promote peace, stability and security and alleviate the tensions in Ukraine; Supporting OSCE Special Monitoring Missions to Ukraine with 9 observers; Contribution to the OSCE/ODIHR to Election Observation Mission with 10 observers; Support to the EU Advisory Mission for Civilian Security Sector Reform Ukraine (EUAM Ukraine) 2 seconded experts; Support to the United Nations Human Rights Monitoring Mission in Ukraine (HRMMU); Contribution of to the European Council's project in Ukraine "International Advisory panel (IAP 2015)"; Contribution to the Council of Europe for a legal and legislative aid project; Contribution to the OECD to support tax crime investigation project in Ukraine; Supporting to the Ukraine-related activities of the EBRD Eastern Europe Energy Efficiency Fund.

Humanitarian aid in total amount of 565,000 euros: 10,000.00 euros worth of in-kind assistance (medicaments) to the Ukrainian Red Cross through Vitale; 25,000.00 euros through Caritas Ukraine for rehabilitation of affected people of riots; Donation of 50,000.00 euros through the International Renaissance Foundation of Ukraine as part of the medical aid to those injured during riots; In-kind food aid for the internally displaced people from the Eastern Ukraine through UNHCR 80,000.00 euros; 150,000.00 euros as part of a humanitarian provision for the medical treatment in Estonia - 5 people injured during street agitation and 10 people injured in the conflict in East Ukraine; 30,000.00 euros to Estonian NGO Mondo, NGO Estonian Refugee Council, NGO Ukrainian Cultural Centre each for their humanitarian activities in Ukraine assisting internally displaced and affected people; Humanitarian assistance for the internally displaced persons of East Ukraine Contribution of 70,000.00 euros through UNHCR in order to alleviate the situation of East Ukrainian refugees; 100,000.00 euros to UNICEF supporting their humanitarian activities in Ukraine with internally displaced and affected persons; 50,000.00 euros to WHO humanitarian activities in Ukraine in the health cluster that support internally displaced and affected people.

Bilateral aid in total amount of 241,619 euros (some examples of bilateral projects): E-governance development support in Ukraine, implemented by E-Governance in cooperation with SIDA; Lääne-Viru county government project „Young and entrepreneurial“; Garage 48 project „Ukraine's regional development weekends to increase the activity of start-up community“; Tallinn University of Technology project „Creation of digital anti-corruption platform in Ukraine“.

Scholarship programs for Ukrainian students in total amount of 135,583 euros: In school year 2014/15, 15 new students started and 9 students continued their studies under the scholarship program.