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**UKRAINE
COUNTRY DEVELOPMENT COOPERATION
STRATEGY
2012-2016**

UKRAINE 2012-2016 CDCS

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Acronyms and Abbreviations

AEECA	Assistance to Europe, Eurasia, and Central Asia
AIDS	Acquired Immune Deficiency Syndrome
ART	Anti-Retroviral Therapy
CIA	Central Intelligence Agency
CDCS	Country Development Cooperation Strategy
CEM	Country Economic Memorandum
CHP	Combined Heat Production
CIDA	Canadian International Development Agency
CSF	Chornobyl Shelter Fund
CSO	Civil Society Organization
CTIP	Countering Trafficking in Persons
DANIDA	Danish International Development Agency
DG	Democracy and Governance
DHS	Demographic Health Survey
DLI	Development Leadership Initiative
DO	Development Objective
DOTS	Directly Observed Therapy, Short Course
EBRD	European Bank for Reconstruction and Development
E&E	Europe and Eurasia
EU	European Union
FP	Family Planning
FDI	Foreign Direct Investment
FTF	Feed the Future
G7	Group of 7

GCC	Global Climate Change
GDP	Gross Domestic Product
GHI	Global Health Initiative
GOU	Government of Ukraine
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HIV	Human Immunodeficiency Virus
ICASS	International Cooperative Administrative Support Services
IDUs	Injecting Drug Users
IFES	International Federation for Electoral Systems
IQC	Indefinite Quantity Contract
IR	Intermediate Result
IMF	International Monetary Fund
LEDS	Low Emissions Development Strategy
LGBT	Lesbian, Gay, Bisexual, and Transgender
MARPs	Most-At-Risk Populations
MAT	Medication Assisted Therapy
MDR	Multi-Drug Resistant
MDTGs	Multi-Disciplinary Task Groups
MOH	Ministry of Health
M&E	Monitoring and Evaluation
MSME	Micro, Small, and Medium Enterprises
NGO	Non-Governmental Organization
NATO	North Atlantic Treaty Organization
NRM	National Referral Mechanism
NSA	Nuclear Safety Account

OE	Operating Expense
PEPFAR	President’s Emergency Plan for AIDs Relief
RH	Reproductive Health
SIDA	Swedish International Development Agency
SIP	Shelter Implementation Plan
SMEs	Small and Medium-sized enterprises
SMPs	Small and Medium-sized producers
TB	Tuberculosis
TIP	Trafficking-In-Persons
UN	United Nations
UNICEF	United Nations Children's Fund
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
USETI	Ukrainian Standardized External Testing Initiative (USETI)
VAT	Value Added Tax
VOTs	Victims of Trafficking
WHO	World Health Organization
WTO	World Trade Organization
XDR	Extensively Drug Resistant

Executive Summary

Since 1991, Ukraine's development trajectory has taken the country from a command to a market-based economy. The United States Government (USG) maintains a strategic interest in helping Ukraine's transition toward greater democracy and a sustainable free market economy. For over 20 years the USG, primarily through USAID, has provided critical development assistance in support of the Ukrainian people. Much of this development assistance has helped Ukrainians experience increased political freedoms, stronger transparency guarantees and more economic and social opportunities.

The Country Development Cooperation Strategy (CDCS) identifies the main development challenges for Ukraine as the centralization of power in the Executive Branch and poor government effectiveness. The country's shift toward a more authoritarian political system, which resulted in its being downgraded in Freedom House's 2011 rankings to "partly-free," complicates bilateral relations. Corruption in Ukraine is pervasive and undermines the legitimacy of its governing institutions, especially the court system. The 2008 economic crisis also revealed structural economic weaknesses in the financial sector, tax system, and business regulation and administration - all of which need comprehensive reform. In addition, Ukraine's energy sector is highly wasteful and emission-intensive. Finally, the health care system has continued to weaken since independence, leaving social services structures too weak to respond to Ukraine's health and demographic problems.

However, in spite of these daunting challenges, a number of positive developments have occurred, which give grounds for optimism. For example, the creation of a stable majority in the 6th convocation of the parliament initially enabled the Party of Regions-led government to break a persistent legislative deadlock and move forward on a number of key reforms, including pension reform, which had been stalled for years under previous administrations. That momentum has dissipated, however, due in part to the political crisis brought on by the trial of some opposition politicians. Ukraine also made commitments at the UN Global Climate Change Conference to reduce greenhouse gas emissions, became a member of the European Energy Community, and made significant progress towards concluding a free trade agreement with the EU, although further progress on the latter is contingent on the restoration of democratic momentum. The formation of a joint action plan in February 2011 between the USG and the Government of Ukraine to address HIV/AIDS in Ukraine also creates an opportunity for deeper collaboration.

As a result of assessments and analyses, extensive Mission internal discussions, and meetings with over 800 stakeholders, including donors and counterparts, the Mission has formulated its goal for the 2012 to 2016 period: A More Stable, Democratic and Prosperous Ukraine. In order to achieve this goal, the Mission has set three Development Objectives (DOs): (1) More Participatory, Transparent and Accountable Governance Processes; (2) Broad-Based, Resilient Economic Development as a Means to Sustain Ukrainian Democracy; and, (3) Improved Health Status in Focus Areas and Target Groups. In addition, the Mission has two special objectives: 1) to support the Chernobyl Shelter Fund as part of the international effort to assist Ukraine in the cleanup of the Chernobyl Nuclear facility; and 2) countering trafficking in persons. In the coming years, USAID will build on the foundation of its strong relationship with Ukraine to deliver sustainable development impact in all sectors of Ukrainian society, enabling Ukraine to further integrate with Europe and the West.

I. INTRODUCTION

Ukraine, the largest country wholly in Europe, is critical to USAID's efforts to assist in the transformation of the region by establishing democratic institutions and processes, supporting competitive economic growth and integrating into regional and global markets. The 2012-2016 Country Development Cooperation Strategy (CDCS) for Ukraine focuses on a targeted development assistance program to support democratic processes, advance economic growth and prosperity, achieve greater integration into European structures, and support the goals of U.S. Presidential Initiatives in Global Health (GHI) and Global Climate Change (GCC).

USG Agencies in Ukraine engage in a high level of interagency collaboration to coordinate the three Ds of American foreign policy – defense, diplomacy, and development. The Mission will continue collaborating on resource utilization and integrating activities with other USG agencies to enhance the impact of our programs.

The GOU has been a partner in implementing many of our development programs, as have been the private sector and non-governmental organizations (NGOs). The Mission has good access to leaders at the local, regional and national levels of the Government of Ukraine (GOU), key parliamentarians, private sector business people and members of civil society. Past Mission assistance has not only helped the GOU address some of its formidable development challenges, but has also resulted in strengthening many institutions and processes that play a role in the political and economic lives of its citizens.

II. DEVELOPMENT CHALLENGES AND OPPORTUNITIES

A. Overview

Ukraine achieved its independence after the dissolution of the Soviet Union in 1991. The country began a period of transition toward a market economy and participatory democracy, but was initially stricken with a protracted eight-year recession, reducing official gross domestic product (GDP) to less than half its pre-1990s transition level. Following that traumatic period and starting from a very low base, the Ukrainian economy experienced relatively high rates of official GDP growth which occurred without much systemic reform, instead utilizing idle plant capacity, improving terms of trade, and experiencing large capital inflows. This growth lasted until 2008, when the economy was affected by the worldwide economic crisis. Had the International Monetary Fund (IMF) not negotiated one of the largest stand-by arrangements in its history (\$16.4 billion) in November 2008, Ukraine would have faced widespread loan defaults and a collapse of its social services. Even with the loan, official GDP declined 15% in 2009, industrial production fell by 22%, and the currency devalued by 60%, making Ukraine the second worst performing economy in the world that year. Official GDP registered modest growth in 2010, reaching an estimated \$137 billion, but remained below its pre-1991 level. On a per capita basis Ukraine, in purchasing power parity, is on par with Kosovo or Namibia, but only slightly ahead of Armenia or Egypt and far behind its neighbors to the west, Poland, Slovakia and Hungary.¹

Ukraine is composed of 24 oblasts (provinces), one autonomous republic (Crimea), and two cities with special status: Kyiv, its capital and largest city, and Sevastopol, which houses Russia's Black Sea Fleet. Ukraine is a republic under a presidential/parliamentary system (which has been a source of many Constitutional challenges), with legislative, executive, and judicial branches.



CIA, "Map of Ukraine," *The World Factbook*, 31 Dec. 2012
<https://www.cia.gov/library/publications/the-world-factbook/maps/maptemplate_up.html>.

However, the country lacks deep experience with democratic institutions and has thus far failed to establish adequate separation of powers. While local councils and city mayors are popularly elected and exercise control over local budgets, they have few discretionary funds. Administration heads in oblasts and their 490 subdivisions, rayons, are appointed by the President in accordance with proposals of the Prime Minister.

¹ CIA, "COUNTRY COMPARISON: GDP - PER CAPITA (PPP)," *The World Factbook*, <<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html?countryName=Ukraine&countryCode=up®ionCode=eur&rank=134#up>>.

Ukraine is home to 46 million people, 78% of whom are ethnic Ukrainians; the largest minority is Russian (17%). Ukrainian is the official language of the country, with Russian also widely spoken. The dominant religion in the country is Eastern Orthodox Christianity. Ukraine is the largest country wholly in Europe and shares a 1000-mile border with the southwestern part of Russia. This geographic location between Russia and the European Union, (and the home to Russia's Black Sea Fleet) gives Ukraine particular strategic importance. Arable land makes up 54% of the area of Ukraine with its rich fertile black soil. With large coal and iron ore deposits, Ukraine has developed a sizeable steel industry as part of a heavy industrial complex in the Donetsk/Dnieper region of central/eastern Ukraine.

Following years of political infighting within the Yushchenko administration, and widespread public disillusionment with the ineffectiveness of the "Orange" government, Viktor Yanukovich was elected in a February 2010 Presidential election judged free and fair by the international community. Previously, Yanukovich lost the 2004 election in the final round, after Ukraine's Supreme Court decided the second round election that had provided him a victory was seriously flawed.. After taking office in 2010, the Yanukovich administration rapidly undertook a series of measures that consolidated power in the Presidency, drawing concern from domestic and international observers about the state of Ukraine's democracy. These concerns unfortunately have been borne out in the loss of momentum for reform, the political prosecutions of opposition party members, and a rapid rise in official corruption.

The new administration presented its 2010-2014 economic reform program titled "Affluent Society, Competitive Economy, and Effective Government" as its guiding strategy. At the end of July 2010, the IMF decided to resume its cooperation with Ukraine through a new Stand-By program (about \$15.6 billion). Kyiv has already received the first two tranches of the loan — totaling roughly \$3.4 billion. However, the IMF was unable to recommend immediate allocation of the third tranche, pending the implementation of core requirements that Ukraine has yet to fulfill, including:

- Pension reform;
- Residential gas and heating tariff reform; and,
- Development of transparent and efficient capital markets.

Ukraine must address a host of political, economic and social issues in order to find its place in an ever-evolving and increasingly interconnected world. The World Bank's August 2010 Country Economic Memorandum (CEM), titled "Strategic Choices to Accelerate and Sustain Growth in Ukraine," has identified corruption and a largely unreformed judicial system as major impediments to investment and economic growth. Further, Ukraine remains dependent on imports for 40% of its total energy needs and is therefore vulnerable to gas supply cutoffs from Russia which supplies 90% of these imports.

The United States has a clear interest in helping advance Ukraine's transition toward greater democracy and a sustainable free market economy. The success of this transition, however, is still not assured. Ukraine has made notable progress on economic and political reforms in its twenty years of independence, but still has a long way to go to in achieving European Union standards on trade regulation, customs and immigration, and governance processes to create a sustainable democracy.

Foreign assistance is one of the USG's most important tools of engagement, helping advance Ukraine's reforms and its integration into European institutions and structures.

B. Development Challenges

Centralization of power within the executive: Following the 2010 elections, the Party of Regions and President Yanukovich began to shift power toward a stronger executive branch. In addition, the Constitutional Court reversed its earlier ruling regarding coalition formation; the new ruling empowered individual MPs, rather than party factions as a whole, to form coalitions. The result was defections from the former Orange camp and the formation of a Party of Regions-led government with a Prime Minister operating in close coordination with the President. The appointment of leaders at the oblast and rayon levels has been much more politicized than in the past. The local government elections held in October 2010 similarly expanded the control of the Party of Regions at the local level in many areas. Domestic observers identified considerable problems with the fairness of these elections from procedural and openness perspectives. The international community pointed out many problems and the USG stated that these elections did not meet standards of openness and fairness.

While Ukraine holds much promise and has had many democratic gains since its independence, in 2011, Freedom House downgraded the country from "Free" to only "Partly Free." Prior to this, Ukraine was the only non-Baltic former Soviet state to have been ranked "Free."

Ineffectiveness of government: The Orange Coalition was defeated in the 2010 Presidential Election by the Party of Regions. After the initial period of consolidating power, the new Party of Regions government also lost reform momentum due to internal disagreements and power sharing issues. The World Bank Institute's Governance Matters index for 2010 ranked Ukraine in the lowest 25th percentile for government effectiveness.

Similarly, the Mission's 2010 Democratic Governance Assessment found that public administration is on the whole neither accountable nor effective. There are no consequences for not following established procedures. Laws that are passed are poorly implemented. Court rulings are not enforced. The governance problem is not limited to the national government in Kyiv: Ukraine's many subnational governments are besieged by complaints from their constituents about local conditions. These governments, in turn, complain that under the current policies of overly centralized decision making and micromanagement of local affairs by the national government (including placing national officials in regional and local offices), rather than true decentralization of authority, they have little authority and few resources.

Failure to address corruption: In the aftermath of the Orange Revolution, Transparency International's Corruption Perceptions Index gave Ukraine some credit for advances in addressing corruption. Ukraine's corruption score in 2004, President Kuchma's final year in office, put it in a tie for 122nd place among 146 countries ranked. It improved by 2006, while President Yushchenko was in office, to place Ukraine 99th of 163 countries. Its position on the index has been slipping, more or less, since, and as of 2012

Ukraine was tied with Bangladesh, Cameroon and Syria for 144th among 176 countries ranked, bracketed by Pakistan, Nigeria and Paraguay and, in the post-Soviet space, behind Russia and only slightly ahead of Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

Ukrainians themselves agree wholeheartedly with these findings (91% in a recent International Foundation for Electoral Systems (IFES) poll believe corruption is very or somewhat common).

Disturbingly, recent public opinion polls show that more than half of Ukrainians surveyed (51%), consider corruption to be an efficient means of interacting with the State. The data show that this willingness to engage in corruption is highest among Ukraine's youth. Yet at the same time, 36% of Ukrainians polled also stated their willingness to fight corruption.

Lack of civic engagement: While the current GOU has pursued long-overdue reforms in a number of sectors, many reform processes were pursued without public participation or meaningful participation by civil society and the opposition. Thus the priorities and positions of many citizens are not being heard or reflected in government reform efforts. The ascendancy of the Regions Party within the Verkhovna Rada (Parliament) has been marked by concerns about a new "dictatorship of the majority" which is characterized by less debate and discussion, the dominance of Presidential initiatives, scant consideration of opposition amendments, less intensive parliamentary oversight and control, and reduced levels of and opportunity for meaningful public input and participation in the legislative process.

These developments are eroding public faith in the representative nature of Ukraine's governing institutions. Although civil society has matured and is more capable of playing a watch-dog role, it still struggles to make its voice heard by government officials and policy makers. In some cases, civil society still lacks the technical skills to weigh in quickly and effectively on the myriad sectoral areas under discussion as part of the GOU's reform agenda. At the grassroots level, access to reliable information about reform processes is limited. The country would be better served by a more diverse media environment in which ownership was scattered among media owners from various political alignments.

Weak rule of law: A USAID Democracy and Governance assessment completed in September 2010 concluded that "the rule of law is spotty at best in Ukraine. The best evidence is the pervasiveness of corruption — which declined somewhat after the Orange Revolution but quickly rebounded to previous levels — and the ineffectiveness and lack of independence of the court system." According to recent survey data, the public views the judiciary as dependent upon political interests and largely unaccountable. Ukraine's legal framework is in need of extensive reform, as it is still largely oriented toward protecting government interests rather than defending citizens' rights.

Because Ukraine's judiciary is underfunded and overburdened, it does not have the resources to serve as a check on executive power and is thus susceptible to political and institutional pressures. Sector reform is required to improve the skills, knowledge, and competencies of judges and their staff and reduce a lack of transparency and ineffectiveness in the sector. Ukrainians feel that the judiciary is

among the most corrupt government institutions. As of 2010, 68% of Ukrainians polled stated that they did not trust the judiciary; of this number, 80% stated that this lack of trust resulted from the fact that they saw the judiciary as corrupt. While a new Law on the Judiciary and Status of Judges, passed in July 2010, incorporated a number of fundamental reforms that had long been sought by Ukrainian and international experts — including court automation, standardized judicial selection and disciplinary procedures, and annual financial disclosure requirements for all judges as well as their family members — it remains to be seen if there is sufficient political will to see these reforms implemented effectively.

Structural economic weaknesses: Since independence, Ukraine GDP growth still has not reached the 1989 level; its fiscal deficit in 2011 was over 5% of GDP (3% of GDP is recommended by IMF); in 2009, of the countries in the region, only Latvia's economy contracted more than Ukraine's; the level of Ukraine's regulatory burden on businesses places it near the bottom out of 28 regional countries; and Ukraine's foreign debt totaled approximately 80% of its GDP (2011). The 2008 economic crisis revealed serious structural economic weaknesses in Ukraine, and identified the need for further deep and comprehensive reforms. The crisis highlighted weaknesses in the financial sector, tax system, business regulation and administration, and energy pricing policy, as well as the need to reduce government expenditures for pensions which are among the highest in the world (at approximately 18% of GDP). Administrative barriers to trade and price liberalization policies, a cumbersome tax regime, poor enforcement of judicial decisions and protection of property rights, inadequate bankruptcy rules, and incomplete land market reform all remain serious obstacles to improving the investment climate.

The effect of these weaknesses in 2009 included per capita income plummeting 37%, savings evaporating with inflation, and the currency being devalued by 60%. This economic downturn caused poverty levels (using a poverty line of \$5 a day in purchasing power parity²) to rise from 12.3% of the population in 2007 to 16% in 2009. This traumatic series of events shook the people's confidence that Ukraine was on the path to a secure economic future. Public opinion polls conducted over time by IFES show that the percent of Ukrainians believing the country was moving toward instability increased from 47% in 2007 to 74% in 2009, and only returned to pre-crisis levels after the elections in 2010. Ukrainians today remain dissatisfied with the economic situation (83 percent), though slightly less so than in 2009 (96 percent). The economy remains in a fragile state. Growth of 5.2% GDP in 2011 provides some cause for optimism, but the provision of credit that would fuel the economic recovery remains limited, as banks continue to be weighed down by very high levels of non-performing loans, now estimated at 35% of banks' portfolios.

Wasteful use of energy resources: Ukraine's energy sector is highly wasteful and emission-intensive. It is the single largest impediment to the government's ability to free up financial resources to deal with other problems. The country is highly dependent on imported energy resources. Imports cost the country over \$10 billion annually, of which approximately \$4 billion is wasted. Generally, energy markets are nontransparent and poorly regulated, which impedes private investment. Ukraine's sources

² World Bank, [Ukraine Country Economic Memorandum: Strategic Choices to Accelerate and Sustain Growth in Ukraine](#), n 55895-UA (Washington D.C.: World Bank, August 31, 2010), p 7.

of energy are not diversified, and the energy infrastructure has become obsolete and aged since independence.

Ukraine has one of the world's most energy-intensive and polluting economies. Not only is the consumption of energy very high relative to the country's economic output, but the country also has a fuel mix that further increases the carbon intensity of the economy. Every \$1000 of Ukraine's GDP required about 2.55 tons of oil equivalent in 2008.³ This level of consumption, even adjusted for purchasing power parity, is more than twice the world average. One of the underlying factors contributing to the energy intensity of the country's economy is artificially low energy pricing. While there have been unpopular adjustments in the past year, prices are still well below market-clearing levels and are heavily subsidized.

Unsustainable social services: Mostly holdovers from the Soviet period, social services in Ukraine are not focused on the poor and disadvantaged, but tend to be based on criteria such as being a pensioner, veteran or civil servant. The system is ill-suited to buffer individuals against risk in a market economy. Pensions have been used as a way to obtain political support by whoever is in power, creating an unsustainable and costly system that burdens the entire economy. Meanwhile, some of the most vulnerable, such as the disabled or orphans, are inadequately supported.

The health care system has continued to weaken since independence. Funding and staffing are both major issues. The bulk of mortality is from non-communicable diseases and chronic conditions. Many of the causes are linked to modifiable and preventable risk factors such as smoking, alcohol and diet. In addition, Ukraine has the highest mortality rate from infectious diseases in the World Health Organization (WHO) European Region with HIV/AIDS and tuberculosis accounting for 90% of all deaths from communicable diseases.

Ukraine's health system is not geared to tackle public health issues. It is complex, inefficient, and of low quality. Prevention and primary health care receive almost no attention or funding. Though, theoretically, healthcare is free of charge per the Constitution, in reality patients are subject to high out-of-pocket expenses and frequent non-transparent under-the-table payments, making the system unprofessional and corrupt. The system lacks a credible referral process with 60% of patients going directly to specialists, and over half these visits are to inappropriate providers.

Changing demographics: Ukraine is the fastest depopulating state in Europe, coupling low fertility rates with low life expectancy. Only Russia's life expectancy is lower and Ukraine's is some 14 years below the European Union (EU) average for males and 8 years below for females. Ukraine has high mortality rates with one third of Ukrainians dying before the age of 65.

Ukraine has lost 6 million people over the last two decades (12% of its population). The crude birth rate per thousand is still 5 people below the crude death rate. The death rate for males is much higher than

³ International Energy Agency, [Key World Energy Statistics 2008](#), (Paris, France: 2010).

for females, thus there is a gender imbalance in the population due to a longer life expectancy for females (75 years compared to just 63 years for males, estimated for 2010). The World Bank has stated that if current trends continue, Ukraine could lose another 10 million of its population by 2050, falling to 36.2 million.⁴ Moreover, the small size of the under-15 population has created an inverted population pyramid, which has significant negative implications for the size of the future work force and the tax basis for support of an aging population under the state pension system.

Gender Issues: While Ukraine is situated relatively well on the OECD Social Institutions and Gender Index, its ranking has declined over the past three years. In 2009, Ukraine was ranked 10 out of 102 countries, while in 2012 Ukraine ranked 27 out of 86 countries. Other indices point to a worsening gender situation in the country. The UNDP Gender Inequality Index puts Ukraine in 57th place out of 146 countries. The World Economic Forum's 2011 Global Gender Gap Index also puts Ukraine in 64th place out of 135 countries. Of particular concern are: increases in maternal mortality and adolescent fertility, a decrease in the number of seats in Parliament that are held by women, and declining labor force participation rates. Mainstream women's NGOs have also come under increased pressure in conjunction with the recent escalation of anti-lesbian/gay/bisexual/transgender (LGBT) sentiments and activities in many areas of Ukraine.

While gender has been stated to be a GOU priority and multiple actions have been taken to show this commitment (robust legal framework to support gender equality, creation of a national gender equality machinery, creation of a National Program on Gender Equality, etc.), several challenges and obstacles remain, which explain and contribute to Ukraine's poor gender equality rankings, including: the non-prioritization of gender equality in national policy and administrative reforms; the non-integration of gender in national statistics, planning, budgeting, and monitoring and evaluation of government programs; overt sexism in mass media, advertising, and from public officials; and lack of donor coordination and commitment to mainstreaming gender into programs and development considerations.

C. Development Opportunities

The creation of a stable majority in the 6th convocation of parliament (2007-2012) enabled the Party of Regions government to break a persistent legislative deadlock and move forward on a number of reforms which had been stalled for years. These reforms include changes to the country's judicial, administrative, electoral and constitutional systems, raising natural gas prices by 50%, reducing VAT arrears, passing procurement reform laws, and supporting the recapitalization of the banking system. However, implementation of the reforms has been inconsistent and the government has also introduced some unsuccessful reforms, such as a highly unpopular new tax code, which observers believe heavily favors Ukraine's wealthy elite at the expense of its SME sector. The government is working on legislation to address land ownership/sales reform, energy inefficiency, and the pension system.

⁴ R. Menon, E. Ozaltin, S. Poniakina, B. Frogner and I. Oliynyk, [An Avoidable Tragedy: Combating Ukraine's Health Crisis, Lessons from Europe](#), (Washington, D.C.: World Bank, 2009) p 7.

Although promising on paper, these reforms could also exacerbate economic and social hardships if not implemented effectively and in a transparent, participatory manner. It remains to be seen what direction the reform agenda will take in the new parliament, which convened in January 2013.

All of these changes in Ukraine provide an opportunity to continue engaging the government, civil society and the private sector to ensure that reforms reflect not only international best practices, but also the inputs and priorities of civil society and the public to the greatest extent possible. Continued Mission engagement can help Ukraine take advantage of these opportunities, and channel GOU reform momentum towards further integration into European practices and institutions.

Ukraine recently faced fundamental choices in its political and economic direction, choosing a middle road of “non-bloc” status. Ukraine joined the World Trade Organization in 2008 and has thus far rejected joining the Russian Customs Union. President Yanukovich and other Ukrainian leaders have repeatedly reiterated their interest in a “European” future. Nonetheless, Ukraine has also stated that it does not wish to join the NATO Alliance, and controversially extended Russia’s lease agreement for its Black Sea Fleet base to 2042. Ukraine now needs to address many of the other challenges to its continued economic and political development in order to spur growth and generate greater economic prosperity for its citizens.

Ukraine’s civil society and SME sectors, although still developing, have matured into institutions capable of being watchdogs of the GOU and representing the interests of the public. As such, the USG’s support for reform processes is directed at expanding the space and instances for effective quality participation of these actors in the development and monitoring of legislative policy. Over the past year, it has become clear that there are some reform-minded individuals in the government and legislature who are open to citizen contributions and international assistance. The GOU has shown some willingness to hear criticism or opposition to proposed reforms, modifying some of its positions or ceasing to move forward with unpopular legislation. In addition to policy development, Ukrainian civil society organizations, including private business associations, have shown themselves to be increasingly effective monitors of government policy. Support for monitoring initiatives will be key over the coming years.

Ukraine has made commitments at the UN Global Climate Change Conference to reduce greenhouse gas emissions, became a member of the European Energy Community, and made significant progress towards concluding a free trade agreement with the EU. The willingness of the GOU to pass difficult reforms and continue on a path toward EU integration provides an opportunity for USG assistance to have lasting development and political impact.

In the health sector, the willingness of the GOU to address and engage in national health reform and participate as an active partner with the Mission represents a critical opportunity to expand health impacts throughout the country in family planning (FP), tuberculosis (TB) control and HIV/AIDS. A series of new Ukrainian Presidential policies and initiatives in FP and Maternal and Child Health (MCH) have been approved with the goal of improving the health status of Ukraine’s population to more closely resemble that of its Western neighbors. Additionally, the partnership between the USG and the GOU

deepened when the GOU's Ministry of Foreign Affairs signed a HIV/AIDS Partnership Framework with the Office of the United States Global AIDS Coordinator in Washington, DC. Through the signing of this document, the USG and the GOU agreed to a five-year joint strategic agenda, in collaboration with other stakeholders, to expand and sustain key components of HIV/AIDS programming in support of Ukraine's national HIV/AIDS response.

Since the restoration of independence in 1991, local self-governance has matured significantly in its role as a countervailing power to the disproportionately strong executive branch of the central government. Cooperation with local governments has often proven more effective, largely due to the responsiveness of local government officials to the needs of their communities. Indeed, public opinion polling consistently shows that local government officials enjoy a greater level of trust among the public than national government. Local governments are often open to new ideas and approaches that become fertile ground for government reform measures. However, progress has been hard-fought. The central government has resisted efforts to advance decentralization, creating complex local government legislation, continuously under-funding functions delegated to local authorities from the central government, and limiting the borrowing capacity of cities. These factors impede the ability of local authorities to sufficiently respond to their citizenry, manage their resources in an efficient and transparent manner, and create the enabling environment for local economic development.

III. ANALYSIS FEEDING INTO THIS STRATEGY

To better understand the current development setting for the CDCS timeframe, the Mission commissioned a series of assessments and analyses which covered donor activity, government planning, development issues, other development efforts, and development needs. In addition, the GOU's development priorities, as described in the GOU's final report,⁵ were assessed.

The Mission also undertook required analyses in Biodiversity and Gender Assessment. The Biodiversity analysis identified the forest-steppe and steppe ecosystems as the least conserved and most threatened ecosystems in Ukraine. Implementing partners will be informed of the findings of this assessment and will be encouraged to integrate them into their activities when the recommendations are in line with projects' scopes and budgets. The Gender Assessment reaffirmed the Mission's position that development programs are more likely to achieve their desired outcomes, result in greater social equity, and lead to lasting transformational development when gender is considered.⁶ Several findings of the assessment include the necessity of educating policy makers on the importance of gender equality and gender integration, resolving the issue of labor migration by creating more jobs, and expanding access to HIV/AIDS services to women. The Assessment will become the basis of the Mission's continued support for the integration of gender considerations into its development programs and policies.

At the sector level, the Mission commissioned numerous assessments in democracy and governance, commercial legal reform, the rule of law, legislative reform, agricultural assistance, HIV policy and prevention, energy and climate change, and contraceptive security. In combination with various country analyses and a number of performance and project evaluations, these assessments created a wealth of information which informed the formulation of this strategy.

Presidential Initiatives

The Mission proposes activities and results supportive of two U.S. Presidential Initiatives: Global Climate Change (GCC) and Global Health Initiative (GHI). The goal of the Mission's GCC activities is to enable Ukraine to pursue a low emission sustainable economic development path. The Mission's GCC programs will emphasize building the capacity of Ukrainian counterparts, in both the public and private sectors, to consider means for reducing carbon emissions and incorporate these into development planning (including through mutual development of a "Low Emissions Development Strategy (LEDS)" and implementation of key activities, including through investments in clean energy and by integrating climate change in programming, policy dialogue and operations. The CDCS integrates GCC planning and implementation into Development Objective 2: Broad-Based, Resilient Economic Development as a

⁵ Ukraine, Presidential Economic Reform Committee, Заможне суспільство, конкурентоспроможна економіка, ефективна держава. <http://www.president.gov.ua/docs/Programa_reform_FINAL_1.pdf>.

⁶ The 2010 UNDP Human Development Report, Table 4, page 157 shows Ukraine has a Gender Inequality Index that in 2008 ranked the country in the upper third at 44th out of 137 countries included. This Index reveals the extent to which national human development achievements are eroded by gender inequality. Ukraine is behind all of its neighbors to the north, east and west (for example--Russia, Lithuania, Poland, Hungary) except Romania, but ahead of all of its neighbors to the east and southeast (the Central Asian Republics and the Caucasus).

Means to Sustain Ukrainian Democracy.

GHI principles being implemented in Ukraine include best practices in addressing HIV/AIDS, TB and reproductive health. GHI goals include promoting the use of those best practices, strengthening GOU health systems, and identifying and implementing new approaches to encourage sustainability and effectiveness. The result of applying these principles will be a collaborative and productive partnership between the GOU and USG agencies to assist the GOU to achieve its objectives in health. The USG interagency team in Ukraine received approval of the GHI strategy from Washington in May 2012. The CDCS is consistent with the GHI strategy in that the GHI principles have been integrated into all Intermediate Results of Development Objective 3: Improved Health Status in Focus Areas and Target Groups.

IV. RESULTS FRAMEWORK

As a result of analyses, extensive Mission internal discussions, and meetings with donors and consultations with over 800 stakeholders, including the GOU, private sector counterparts, and non-governmental organizations, the Mission has formulated the following goal for the program over the plan period: A More Stable, Democratic and Prosperous Ukraine. In order to achieve this goal, the Mission has set three Development Objectives (DOs): (1) More Participatory, Transparent and Accountable Governance Processes; (2) Broad-Based, Resilient Economic Development as a Means to Sustain Ukrainian Democracy; and, (3) Improved Health Status in Focus Areas and Target Groups. In addition, the Mission has added two special objectives. The first provides support for the Chernobyl Shelter Fund to provide bilateral assistance to the international effort to assist Ukraine in the cleanup of the Chernobyl Nuclear facility. The second objective provides support to counter human trafficking in persons.

The Mission’s development hypothesis is that greater participation by the public in governance will lead to a more democratic Ukraine. Ukraine’s democratic institutions will be sustainable only when a larger portion of its population participates fully in all areas of society, thus making institutions more stable, leading to a more prosperous Ukraine. Additionally, an improved health status in focus areas and target groups will lead to greater participation in the economic growth of the country.

USAID/Ukraine 2012-2016 Results Framework



IV. DEVELOPMENT OBJECTIVE 1: MORE PARTICIPATORY, TRANSPARENT AND ACCOUNTABLE GOVERNANCE PROCESSES

The Mission's goal is a more stable, democratic and prosperous Ukraine. This goal is founded upon the principle that greater participation and oversight by the public in all areas of society will lead to a more democratic and economically viable Ukraine. As an important regional and global partner for the U.S., Ukraine's continued transition to a more democratic and prosperous country will remain a USG priority in the region. Benchmarks of progress toward this goal include the development of democratic processes compliant with European norms and conventions, increased commitment to combat corruption, and increased public awareness and participation in democratic and economic governance.

Having assessed Ukraine's development challenges and opportunities, the Mission has identified as its first Development Objective (DO 1): *More Participatory, Transparent and Accountable Governance Processes*. By helping to protect Ukraine's democratic advances, fight corruption, and promote good governance, including at the local level, the Mission will be supporting the development of a more stable democratic polity – in line with the Mission Goal. This DO is directly supported by three key Intermediate Results (IRs) necessary to accomplish the Mission Goal and which are related to more participatory democratic processes and effective governance in Ukraine: (1) improving the legislative and policy environment in line with European standards; (2) improving citizen oversight and engagement in governance processes; and (3) making the government more accountable to its citizens and adherent to the rule of law. The methods and interventions under this DO will support the Mission's two other DOs - economic growth and improved public health. Improved participation, transparency and accountability of governance processes will help create an environment better suited to solving economic policy and management issues, and to improving the delivery of health services.

A. Development Hypothesis

Following the failed promise of the Orange Revolution, Ukrainians hoped that a new Administration would address long-standing problems. Many citizens are increasingly concerned that there has been little perceptible progress on the development of democratic institutions and practices. They continue to call for more local government autonomy to make governance more participatory. There remains a need to reform the judiciary system and strengthen the links between members of Parliament and their constituencies. Media independence also needs strengthening. The ultimate aim of the Mission's program is to support more inclusive policy development while also restoring a functioning system of checks and balances, to civil society, and ultimately, to citizens. The development hypothesis is that by supporting key government reforms and democratic ways of adopting them, more inclusive methods of policy development, improved legislative processes, and greater citizen and judicial oversight of government action, the transparency of government actions will be increased and government accountability to citizens and to the rule of law will be reinforced, leading to a more stable and democratic Ukraine.

B. Critical Assumptions and Risks

Achieving the Mission's governance objective in Ukraine depends on several critical assumptions and the avoidance of a number of risks. These critical assumptions include:

- Ukrainian lawmaking institutions at both the national and local levels continue to have the will and the capacity to adopt legislation;
- The GOU shows a willingness to adopt and implement reforms in a manner that reflects best international standards and practices;
- The GOU will continue to allow a certain level of civil society activism and press freedom in Ukraine.

Programming directed at achieving the Mission's DO 1 will also face a number of risks. These include:

- The legislative frameworks for Ukraine's political processes do not take into account civil society and opposition input;
- The GOU forestalls or postpones political competition;
- International donors give up on the GOU as a reliable, productive partner;
- The GOU and Ukrainian citizens continue to show an unwillingness to seriously address the issue of public sector corruption; and
- Citizens grow increasingly disillusioned with the idea of democratic governance and cease to engage in political processes.

In order to mitigate some of these risks, the Mission will continue to seek out opportunities to support inclusive policy development processes and provide technical assistance in order to ensure that the reforms supported are consistent with European norms. Continued support for civil society as well as targeted diplomatic engagement will be pursued in order to maintain internal and external sources of pressure on the GOU in favor of free and open political competition, and serious and sustained efforts to combat corruption. The USAID Mission will also continue to encourage engagement by other members of the donor community in support of democratic reform processes.

C. Intermediate Results

(1) Improved Legislative and Policy Environment in line with European Standards

The current administration has announced and pursued an ambitious legislative agenda, which, if enacted, would alter many aspects of Ukrainian society. Many of the proposals take on issues that western advisors and foreign donors have long advocated. Yet, many of these measures have been developed without consultation with the opposition or with citizens, and often are not particularly designed to benefit Ukrainian society as a whole. Thus, USAID programs will continue to be needed to support the engagement of civil society organizations, the independent media, and citizens in the policy development process, as well as to provide technical assistance to ensure that the reforms developed reflect international best practices.

The administration has taken few steps to address the issue of public sector corruption. Corruption is a pervasive problem affecting all sectors — including business, education, healthcare, and agriculture — and all citizens, making it particularly difficult to root out. USAID will integrate opportunities to reduce corruption across all technical areas, supporting the standardization of government processes and increasing the transparency of decision making processes.



A judicial candidate takes an anonymous test at Kyiv National University on May 22, 2011. (Photo: Olha Myrtsalo)

In Ukraine's current political environment, a high and increasing degree of centralized decision-making limits the control Ukrainian local governments have over their own affairs and hinders their ability to be responsive to the citizenry. However, strong local leaders have been able to withstand pressure from Kyiv and have demonstrated an ability to be a balance on central power. Decentralization of control over resources leads to financially independent and strong local governments that are more likely to meet the needs of residents, promote business growth, and attract investors. USAID programs will assist local governments to improve laws and regulations to: streamline the flow of financial resources to the local level; delineate responsibilities between various tiers of government; resolve issues of municipal property and land ownership; and devolve executive functions to the oblast and rayon bodies of local self-governance.

Broad-based economic growth is dependent upon creating physical and managerial infrastructure at the local level that encourages business creation and development, attracts investment, and creates employment. Improvement of service delivery at the local level is also of paramount importance for gaining the general population's support for democratic and market-oriented reforms in Ukraine. In this area, USAID technical assistance programs will enhance the latent abilities of local governments to provide for required improvements in critical utility services, services to businesses and engineering infrastructure for local economic growth, as well as their ability to advocate for the appropriate legal and regulatory changes at the local and national level.

The democracy sector is a leading candidate for cross-sectoral programming, with a goal of supporting a broader, more inclusive and accountable, decision-making process. Support for greater government transparency will also be pursued across the Mission's entire technical portfolio.

(2) Improved Citizen Oversight and Engagement in Governance

In order to create the necessary demand for inclusive and accountable governance, the Mission’s program will increase its focus on building citizen and civil society capacity to meaningfully influence the development and monitoring of government policies at the national level. In order for this goal to be achieved, citizens and civil society alike need both access to quality information and sufficient technical



Learning how to operate a camera. (Photo: Oleksandr Makarenko)

capacity to function effectively as part of the Ukrainian political system. Activities will also seek to build the capacity of civil society organizations that have a large impact on fundamental freedoms and government transparency. Finally, at the most basic level, representative democracy in Ukraine is impeded by electoral processes that are developed and implemented in the interest of short-term political gains rather than the representation of the will of the electorate. Thus, activities will also focus on supporting citizen and civil society organization initiatives to demand greater accountability of their representatives and of the electoral process.

(3) The GOU is More Accountable to its Citizens and Adherent to the Rule of Law

Rule of law is critical to the consolidation of effective democratic governance in Ukraine. According to recent survey data, the public views the judiciary as dependent upon political interests and largely unaccountable. Ukraine’s judiciary has made uneven progress in fulfilling its role as an independent arbiter; the courts and the prosecutor’s office need to more effectively assert their independence in criminal and civil judicial matters. USAID programs will assist the GOU in its reform of the legal framework, with a focus on protecting and defending citizens’ rights instead of government interests.

Though progress toward judicial independence has been made, the judiciary still suffers from the legacy of the Soviet past when the courts were directly controlled by the central government and used as a tool to deter opposition and punish dissent. USAID programs will seek to improve judicial independence and increase the capacity of courts to impartially enforce the law.

The judiciary is underfunded and overburdened, and thus subject to political and institutional pressures. USAID programs will increase citizens’ knowledge of basic rights and freedoms, as well as give access to quality legal services.

D. Donor Coordination

Close coordination with the development and diplomatic initiatives of other international actors will play an important role in achieving this Development Objective. The Mission works with a wide array of

donors in the democracy and governance area. The Mission coordinates with other donors and the GOU through monthly coordination meetings, initiated by USAID, in the areas of rule of law, parliamentary development and access to justice. USAID's comparative advantage in democracy and governance is due to substantial and timely resource allocation, technical expertise, and a long-established reputation for collaboration with stakeholders and effectiveness of programming. USAID's technical assistance capabilities and its lengthy experience in the sector have gained it notoriety and trust of the government, other donors, and the NGO community.

USAID provides the largest amount of donor support to the Verkhovna Rada, and coordinates closely with other donors involved in strengthening the Parliament of Ukraine, including the Westminster Foundation and the European Commission's Ukraine-Legal Policy Advice Centre. Whereas USAID support focuses on aspects of policy development and legislative reform, along with citizen access to and engagement with the Parliament, the Westminster Foundation supports complimentary activities in organizational operations aimed at improving institutional communication and financial oversight. The EC's Ukraine-Legal Policy Advice Centre provides policy advice and coordination to the Rada as well as support to related GOU institutions such as the National Agency of Civil Service of Ukraine in efforts to support European integration.

USAID is also the largest donor in providing support to political parties and election observation, whereas private foundations engage parties on a limited basis, pairing Ukrainian parties with ideologically like-minded political parties in counties for small-scale training assistance. USAID collaborates with the Canadian International Agency for Development (CIDA), the German Embassy, the British Embassy, the Council of Europe, the European Commission, and the Organization for Security and Co-operation in Europe (OSCE) to support political processes, political party development, and elections in Ukraine. USAID's programming focuses on improving parties' responsiveness to citizen needs. USAID also provides significant support – along with CIDA, the German Embassy, and OSCE Office for Democratic Initiatives and Human Rights (ODIHR) – to long-term and short-term election monitoring to ensure that fair, transparent and inclusive elections take place.

In the area of access to justice, USAID has been a pioneer by developing a grassroots program in Ukraine through Environmental Public Advocacy Centers that were established in 1994. USAID-funded programs have been instrumental in developing Ukraine's legal clinic movement through setting up a network of public legal advocacy centers. Further, USAID remains the largest donor that provides technical assistance for the ongoing reform of Ukraine's legal aid system. USAID specifically targets health, property and employment rights and brings together NGOs, private law firms, law schools and students to support access to primary legal aid and grow a pro bono culture in Ukraine. Other donors in this sector include: the International Renaissance Foundation (IRF), which supports the Ministry of Justice and NGOs in providing free primary and secondary legal aid to citizens; UNDP, which targets access to justice issues in certain areas of Ukraine, specifically engaged in property rights; and the European Delegation in Ukraine and Oxfam Novib, which support a select group of local organizations working toward access to justice through free legal aid. USAID regularly participates in coordination meetings to ensure the complementarity of activities within the sector. To develop alternative models for the

provision of pro bono legal services and build professional networks of legal practitioners in the specialized areas of law, USAID coordinates with the International Renaissance Foundation.

E. GOU Commitment

As discussed above, the current government has announced an ambitious reform agenda, but has yet to articulate an overall strategy for reform. Action Plans have been issued in the rule of law and anti-corruption areas, but these plans are limited to lists of legislation targeted for reform and a broad timetable for action, and do not discuss the GOU's overall objectives for reform. Donors have also decried a tendency within the administration to develop reforms without significant outreach to, or input from, opposition parties, civil society or citizens as a whole. As noted above, concerns regarding the dominance of the executive branch over the Verkhovna Rada and the judicial system have led many to question the commitment of this government to democratic norms, particularly its commitment to accept civil society engagement. However, experience over the past year has shown that the GOU is not a monolith, and there are reform-minded individuals within the government who have been valuable partners in the development and implementation of critical reforms. Continued engagement with these actors, complemented by pressure on the GOU to respect democratic norms and practices as necessary, will be critical to prevent the further consolidation of power and erosion of democratic principles.

F. Gender Issues

Gender issues under DO1 are mainstreamed into USAID interventions through both the legislative and policy environment, and citizen oversight and engagement. Priority actions during the strategy period will include: improving policy development to ensure that gender is mainstreamed into the process, particularly through regularizing gender reviews in legislative committees; harmonizing government policies concerning gender with European policies; improving awareness of legal aid options among women, and ensuring a cadre of legal aid providers qualified to address gender issues; and increasing the role of Mission staff, particularly U.S. Government employees, in publicly promoting gender policies. These efforts focusing on both civil society action and improving government practices will help address recent backsliding on gender equality.

G. Linkages to Other USAID and USG Programs

The Mission's program is directly linked to its Health and Economic Growth programs through the capacity building of civil society in all sectors to participate more effectively in influencing the development and implementation of policy. The Mission works with civil society coalitions throughout its portfolio including on issues of land, healthcare, tax, and procurement reform. Within the USG, the Mission's strategy is closely coordinated with the Embassy's Democracy Commission and the National Endowment for Democracy in the civil society and media sectors; and the Department of Justice's Regional Legal Advisors in the Rule of Law and Anti-Corruption Sectors; and with the Bureau of International Narcotics and Law Enforcement Affairs in Countering Trafficking In Persons (TIP).

V. DEVELOPMENT OBJECTIVE 2: BROAD-BASED, RESILIENT ECONOMIC DEVELOPMENT AS A MEANS TO SUSTAIN UKRAINIAN DEMOCRACY

The Mission's second DO: *Broad-Based, Resilient Economic Development as a Means to Sustain Ukrainian Democracy* utilizes economic interventions to expand economic opportunities that enable a large and thriving middle class and increase the incomes of the majority of Ukrainian citizens. In cooperation with the GOU, other USG agencies and bilateral and multilateral donors, the USAID Mission will address DO 2 through four interrelated IRs: (1) increasing investment availability to the emerging middle class; (2) strengthening private sector advocacy and support institutions; (3) improving local government support for small and medium-sized enterprises (SMEs); and (4) promoting greater energy security. By addressing these IRs and their related problems, the Mission will contribute to broadening the base of those benefitting from economic growth and create a more resilient economy that can withstand external and internal shocks, as well as sustain democracy by demonstrating the results that democratic governance can provide to the population.

If Ukraine is to achieve its democratic and economic potential, reforms that facilitate broad-based economic development at the national, regional and local levels must be a focus. The purpose is to generate economic growth across the population — across geographical regions, from large cities to small villages, and with a clear emphasis on expanding the middle class. In order to do so, the Mission must bring awareness to and increase peoples' stake in supporting economic policies and reforms that would benefit them.

At the same time, a significant obstacle to sustainable economic growth in Ukraine has been the country's vulnerability to both internal and external shocks, which have interrupted positive growth trends and erased some previous gains. Vulnerability exists because Ukrainian institutions and regulatory policies are largely unenforced, and because development without adequate participation and buy-in from the public results in key institutions and policies susceptible to capture by a small number of strong government and private actors. In order to eliminate wide swings in the country's economic performance and shore up any additional gains that are made, the Mission and other Western donors, which the U.S. leads in terms of policy guidance and technical advice, must improve the resiliency of the Ukrainian economy. Resilient growth in the Ukrainian context would therefore imply strengthening institutions to improve their regulatory functions and policy making in a way that increases the transparency of decision making processes and the participation of the entire business community. Resiliency also implies diversifying access to ownership within the private sector, strengthening private sector advocacy and support institutions and opening the economy to a broader array of actors. A central tenet of such a strategy must be a focus on integrating EU standards into these institutions and adopting international best practices. As such, the Ukrainian economy will encourage more equitable growth, with institutions supported and influenced by the public.

Ukraine's accession to the World Trade Organization, as well as its ongoing participation in the European Energy Community, each of which require adoption and adherence to international rules and

principles, provides some leverage to encourage the development of fair and transparent policymaking and the advancement of critical reforms.

A. Development Hypothesis

Addressing constraints to investment, increasing private sector advocacy, improving local government support for SMEs, and supporting greater energy security - all through the promotion of greater participation on behalf of economic stakeholders that have vested interest and ownership of the economy- will result in more resilient, broader based economic development. Improving the advocacy abilities and responsiveness of a broader group of economic stakeholders (businesses, local governments, etc.) will therefore, create a demand for more accountable institutions and more transparent policy formulation. Similarly, improving the regulatory framework and enabling environment for financial investments will allow investment across a wider range of financial instruments and within an array of economic sectors, creating more resiliencies and stability to economic shocks, both external and internal, and enabling a larger number of Ukrainians to develop assets. Thus, fostering broad-based, resilient economic development, as a means to sustain democratic practices, directly contributes to the goal of a more stable, prosperous and democratic Ukraine.

B. Critical Assumptions and Risks

Achieving the Mission's economic growth objective in Ukraine depends on several critical assumptions and the avoidance of a number of risks. These critical assumptions include:

- GOU follows market-oriented policies that sustain economic growth.
- Agricultural land sale moratorium will end in 2016.
- Reform-minded counterparts in regulatory institutions and in the GOU are active in both the public and private sectors as champions of USAID reform efforts.

Programming directed at achieving DO2 will also face a number of risks. These include:

- The GOU may procrastinate in implementing necessary reforms because of political disputes, elections, incapable management, bureaucratic inertia, or other reasons.
- Key donor partners, such as the EBRD or World Bank, may alter their programming in Ukraine.
- Lobby groups gaining political power will hinder economic growth.

The Mission will mitigate these risks through its programs by vigorously pursuing the creation of better checks and balances in democratic processes, supporting the work of multinational development institutions in economic reform areas and maintaining a dialogue with the GOU on the importance of implementing its strong reform agenda.

C. Intermediate Results

(1) Increased Investment Availability to the Emerging Middle Class

One of the main constraints to the inclusion of more Ukrainians in the economy is the investment climate. Currently, the investment climate stifles entrepreneurship and business growth, particularly for micro, small and medium enterprises, limiting economic opportunities for most Ukrainians. By improving the investment climate, with a particular emphasis on creating more opportunities for an emerging middle class, the Mission strives to expand the influence of the private sector in helping Ukraine improve economic and democratic governance. In this context, the emerging middle class is composed of existing and aspiring entrepreneurs, small business owners, and other professionals that could, if supported, acquire and deploy more economic clout. Many of these actors currently operate in the “shadow economy” or feel that there is too much risk in investing in the Ukrainian economy; this is a lost opportunity. Inconsistent government policies are partly responsible. The 2008-09 financial crisis devastated Ukraine’s economy, exposing weaknesses in the regulatory framework and financial sector. The middle class was most affected by the crisis, and lost much of its assets. Witnessing increasing unemployment, deteriorating political consensus, and a sudden currency devaluation, Ukrainians felt more vulnerable and pessimistic about the future. Increasing investment availability for the middle class is necessary to reversing this trend. This will require supporting a strengthened financial sector that is regulated by politically and financially independent entities, which protect the interests of the average investor, increases access to information about financial resources, and improves public financial literacy. A strengthened financial sector will enable small business to take advantage of existing opportunities and will provide the public more tools to monitor government policymaking and influence decisions.

Given resource restraints, USAID efforts in some areas, such as capital market development, fiscal reform, and national budget planning and management, will focus solely on supporting local oversight efforts to assure government accountability. This is a low cost means to help preserve gains made through previous USG technical assistance aimed at building more transparent institutions that operate according to international norms. Under the strategy period, USAID programs will devote more significant resources to



Farmers examine new tomato varieties as investment opportunities for better yielding crops. (Photo: USAID AgriInvest)

activities with the most direct impact on growing investment opportunities for the middle class. These activities include strengthening supervision and regulation of the financial industry, with an emphasis on broader public-private dialogue; bringing investor protections in line with international standards; and increasing financial literacy. USAID’s programmatic approach does not include direct provision of credit or investment promotion. However, given the importance of the agricultural sector and the implications

of anticipated land reform on the development of the middle class, activities will strive to ensure that average Ukrainians have the tools and legal protections needed to fully participate in this reform. Failure to address this specific and critical sector of the economy during the strategy period would exacerbate the most pressing development challenges identified, those being the consolidation of economic and political power and the ‘crowding out’ of the average Ukrainian investor.

(2) Strengthened Private Sector Advocacy and Support Institutions

Sound economic growth policies aligned with international best practices are required to further build a viable SME sector that can act as a force for democratic change. Private business associations and other support institutions can play a larger role in shaping the regulatory environment. Enabling this participation, and encouraging the GOU to engage business associations and other civil society organizations, is the focus of this Intermediate Result.

SMEs account for only 10-15% of Ukraine’s official GDP, compared to 40% in neighboring Poland and 70% in France. The small role of SMEs in the national economy can be attributed to rampant corruption, persistent pressure on business from government, and non-adherence to the rule of law. These are factors that drive a shadow economy estimated between 30 and 40% of GDP.⁷ Often, otherwise satisfactory laws are not being properly enforced. Improvements in the business climate can nurture the development of a middle class with a strong stake in a less bureaucratic, more effective and less intervening state.

Business associations can and should be key elements in civil society, playing a critical role in counterbalancing the influence of elite economic and political forces. Street protests and demonstrations against changes to the tax code have shown the ability of private sector actors to make their voices heard on key economic issues. While these sorts of demonstrations have largely developed autonomously, ways need to be found to institutionalize this ability to participate in public policy debate and meaningfully affect change. Business advocacy groups on both the local and national levels should strengthen their ability to create effective dialogue with the government in order to make the private sector environment more competitive and more accessible to a broader range of economic actors, and the overall economy more dynamic. USAID will strengthen the internal capacity of these business associations and other private sector institutions, and then help deploy that capacity to promote better commercial laws and regulations, confront corruption in the business enabling environment, demand more government transparency, and advocate for changes to administrative rules and procedures which hinder the growth of SMEs. In addition to alleviating administrative and regulatory constraints, associations will be strengthened to advocate for policies that ensure that their labor needs will be met, including through public-private dialogue aimed at improving the relevance of higher education to labor market needs.

⁷ “Economy Ministry: Level of shadow economy in Ukraine grows by 0.4% in the first quarter of 2012,” *Kyiv Post* [Kyiv] 21 Aug. 2012 <<http://www.kyivpost.com/content/ukraine/economy-ministry-level-of-shadow-economy-in-ukraine-grows-by-04-in-the-first-quarter-of-2012-311828.html>>.

(3) Local Government Supports SMEs

Shoring up the effectiveness of local government in responding to the needs of its residents and taking some of that responsibility from the central authority requires improving local governments' financial management and capacity to advocate for resources. Given the broad range of services that local governments provide to SMEs, as well as evidence of effectiveness of the private sector to engage productively with government at the local level, the Mission will focus assistance to local governments on these areas. By advocating for increased growth in local economies, USAID can push for greater transparency and accountability within local governments. Furthermore, local governments can more effectively lobby for change on the national level concerning democratic principles (transparency, accountability) that affect national economic issues.

Broad-based economic growth depends on building a system that ensures productive cooperation between the private and public sectors. The principle reasons for the current condition of local economies are: insufficient responsibility of local governments to influence the economic environment in their communities, lack of development resources allocated to local governments, unstable revenue collection for local budgets, lack of knowledge and experience in managing municipal assets leading to poor infrastructure and services for citizens and businesses, and hostile and conflicting national legislation that impedes local economic governance in Ukraine in general.

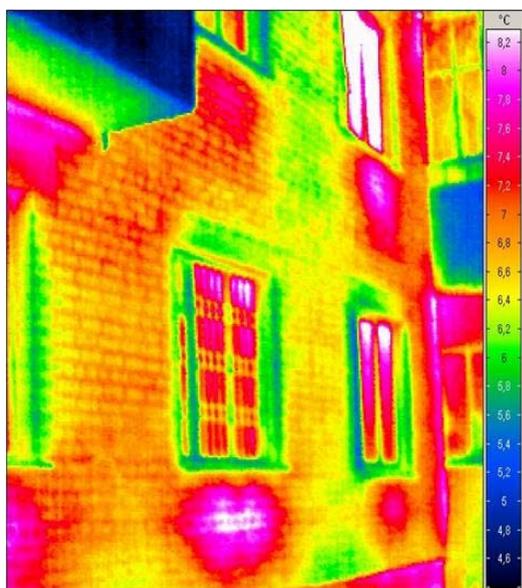
Economic development and economic growth are local in nature. Investment does not come to national economies as such, it comes to specific cities where businesses and investors draw on local resources, such as infrastructure, utilities, business services provided by local governments, the regulatory environment, and the local workforce. Therefore, USAID programs will help to ensure that local governments are capable of supporting small businesses. Local economic governance programs, coupled with economic growth projects, can serve as catalysts for a more productive public/private sector dialogue that creates a common pursuit for a fair and transparent market system.

(4) Enhanced Energy Security

Ukraine has one of the world's most energy-intensive and polluting economies. As a country with significant heavy industry, Ukraine consumes more than one fourth of its net energy (after transformation losses) for industrial use. Residential and commercial customers account for about 25% of total net energy. This level of consumption is about twice that of Russia, itself a very heavy energy user. In contrast, emerging market economies such as China, Brazil and Poland, use one fourth to one eighth Ukraine's energy per unit of output, making Ukraine a significant outlier. Ukraine's energy intensive economy impedes growth, leaves the economy highly vulnerable to price shifts, draws government resources (in the form of subsidies) away from other priority issues, and creates dependence upon foreign energy suppliers. This dependence on foreign energy sources, particularly Russia, enables often negative influences on the country's democratic development. Reducing this dependence is a key USG priority in Ukraine and critical to promoting western democratic principles.

Ukraine faces many obstacles to energy security and efficiency, including: the lack of a coherent national energy efficiency strategy; non-market based tariff setting; the lack of incentives to conserve energy and attract investment; unclear energy policies; and non-coordinated efforts from national and local government actors and the private sector.

An efficient and well-diversified energy sector based on sound policies and competitive markets will greatly improve the country's energy security and free up significant resources for the GOU to apply to other problems. Cleaner energy production and use will not only decrease greenhouse gas (GHG) emissions and reduce GCC, but also enhance the economic and human potential of the country. Greenhouse gases have a long-lasting detrimental impact on the quality of agricultural produce and the value of land, lead to additional expenditures in health care, and negatively impact people's health and life expectancy. USAID programs in the energy sector will help the GOU to improve energy policies and develop in-country capacity and knowledge to support sound energy programs and strategies. USAID will also support more transparent, efficient, and better regulated energy markets to foster competitiveness in the sector and incentivize greater energy efficiency and security. In addition to addressing important goals under GCC and EC-LEDS initiatives, the mission places a priority on these activities due to their importance to Ukraine's economic and political development.



Нагрівання повітря та зовнішніх стін батареями, замість обігріву кімнати

Energy audit infrared photo shows where building heat is lost. (Photo: USAID Municipal Heating Reform project)

One of the underlying factors concerning Ukraine's energy intensity is the continuation of inconsistent pricing policies and heavy cross-subsidization in the sector. Tariff-setting reform must be completed and an effective, independent regulator has to be established and become operational to ensure fair competition and transparency in the energy market. At the same time, subsistence income households should be adequately protected from the negative impact of an energy tariff increase by reforming the existing social safety net. Absent effective safety net provisions, resistance to needed reform is likely to be strong and, in a worst case scenario, may even be strong enough to completely derail reform or even lead to instability. Energy efficiency is key to reducing the energy intensity of Ukraine's economy and making it more competitive and resilient to internal and external price shocks. Energy efficient technologies should be promoted by developing incentives for and mobilizing private and public capital to make profitable energy-saving investments in municipal energy infrastructure and dwellings.

An EC-LEDS scoping mission, conducted in March 2012, identified the energy sector as the primary emissions driver in Ukraine, accounting for approximately 70% of Ukraine's national GHG emissions. As the main emitter, a priority sector for GOU development and reform programs, the energy sector is also the chief focal area for the scoping team's recommendations for opportunities for collaboration

between the USG and GOU under the EC-LEDS program. Specifically, in order to implement EC-LEDS, a broad collaboration consisting of USAID and other USG actors (USDA Foreign Agricultural Service and the Department of Energy) with several Ukrainian ministries and state agencies (Ministry of Ecology and Natural Resources – State Environmental Investment Agency, Ministry of Regional Development, Ministry of Energy – State Agency for Energy Efficiency) will work to improve the energy sector in the following areas: improving the legal and regulatory basis for LEDS in the energy sector; broadening assistance to improve efficiency in the municipal heating sector; and building capacity for national-level financing, implementation, and reporting of clean energy activities.

D. Donor Coordination

The Mission operates in a highly challenging political, economic, and financial environment, requiring significant donor coordination efforts. Projects and activities of bilateral donors in Ukraine in the coming 3-4 years are relatively small and concentrated on symptoms, as opposed to U.S. programs that address underlying institutional weaknesses. International Financial Institutions (IFIs) engage Ukraine with substantial sums of money, but with little of the technical assistance needed to make their programs successful. In fact, both the IMF and the World Bank collaborate extensively with USAID on economic growth issues.

The U.S. is one of the largest donors to Ukraine, coordinating closely with the EU, the Canadian International Development Agency (CIDA), the Swedish International Development Cooperation Agency (SIDA), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the World Bank, IMF, European Bank for Reconstruction and Development (EBRD), and the UN.

In the area of economic growth, the EU and World Bank have been working in specified areas of trade, customs, energy, fiscal reform and road infrastructure. The Mission leverages IFI funding by providing substantive policy and technical guidance in three areas critical to transforming Ukraine's economy and integrating it with transparent Western markets. The Mission provides: expert technical assistance in financial sector reform which facilitates IFI efforts (especially of the IMF) and strengthens financial institutions; policy guidance and technical support to enable Ukraine's enormous but dormant agricultural sector; and support to improve efficiency in municipalities' heating systems, which currently lose more than 50 percent of heat and energy in production, distribution and consumption systems. The Mission also extends efforts in certain areas to make sure that important assistance niches are covered, including technical assistance to the private sector, local civil society, and business associations.

In the financial sector, donors closely coordinate assistance with the GOU and other financial sector stakeholders. The Mission funds technical assistance to build the institutional and legal capacity to support reforms in the provision of financial services, while other donors — including the IMF and World Bank — primarily provide direct budgetary financing to cover liquidity gaps and fiscal needs. The Mission's financial sector technical assistance activities are closely coordinated to support conditionality in World Bank loans and IMF Agreements. Visiting IMF teams typically begin and end their missions consulting with USAID experts on government bond markets, banking systems, fiscal reform measures,

social “safety net” structures, etc. The World Bank has coordinated closely with USAID in developing viable property rights registration systems, agricultural policy and energy reform.

The Mission continues to enhance donor coordination by fostering regular dialogue through donor groups in local government, energy, finance and public procurement. It will work closely with in-country counterparts in tracking activities and projects in order to forge linkages and synergies between various initiatives.

E. GOU Commitment

The Mission is focusing its efforts to work more closely with private sector and local government entities, which have been receptive to utilizing assistance and which engage the national government to promote economic reform issues important to Ukraine’s economic development. Local government leaders, in collaboration with their private sector counterparts, have been more actively pursuing economic reform relative to their national counterparts, making the most effective use of USAID’s assistance.

F. Gender Issues

Gender considerations under this Development Objective will be focused on ensuring that women are equal partners and beneficiaries in economic development. Priority actions under the strategy period will include: ensuring that women are aware of, influence, and benefit from changes to the policies regarding land ownership; increasing the voice and influence of women entrepreneurs in business associations and other efforts to improve the business enabling environment; introducing gender analysis in the preparation and discussion of local government budgets; and developing agriculture finance products tailored to the needs of women.

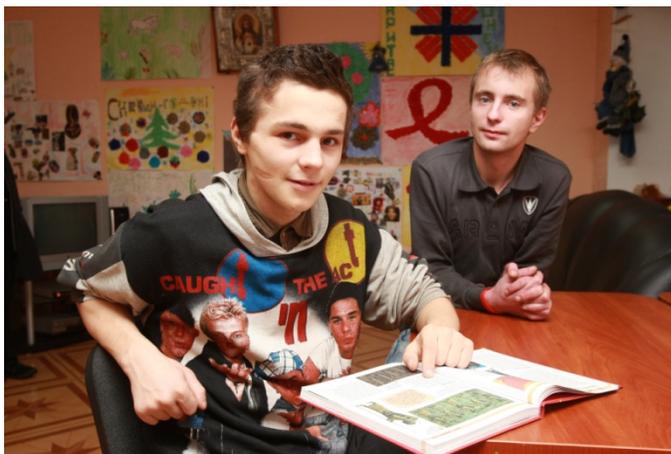
G. Linkages to Other USAID and USG Programs

Areas of synergy between Economic Growth and Democracy and Governance projects include pension reform, trade, and municipal economic development. In order to encourage Ukrainians to avail themselves of economic policy reform, projects under this development objective incorporate the use of legal aid centers promoted by Development Objective 1 activities.

VI. DEVELOPMENT OBJECTIVE 3: IMPROVED HEALTH STATUS IN FOCUS AREAS AND TARGET GROUPS

The Mission's health programs build upon more than a decade of successful work with the GOU, Ukrainian private and public institutions, and communities. The Mission's vision is to enable Ukraine to achieve a level of health care comparable to its neighbors in the eastern EU who share the experiences of a communist past and to meet both its national and citizen goals for healthier, more productive lives. The Mission will achieve this vision by making it possible for more Ukrainian citizens to change their behavior and use successfully targeted and proven effective health practices and behaviors which directly impact on morbidity and mortality.

The Mission's third DO: *Improved Health Status in Focus Area and Target Groups* is the result of a successful interagency collaboration through the strategy platform of the USG's Global Health Initiative (GHI). To meet the GOU and GHI goals "to reduce mortality and morbidity," the Mission will assist with the achievement of the program's development objective of improving health status in focus areas and target groups by increasing the use of targeted health practices which have a proven, direct impact on mortality and morbidity. Although assistance programs cover the entire country, the Mission will focus on oblasts with high HIV and tuberculosis (TB) prevalence; in family planning/reproductive health (FP/RH) activities, geographic focus is prioritized by the existing need for FP services and the commitment of health officials to address the problems. Targeted health practices include modern method contraceptive use, completion of TB treatment regimens, and use of key HIV/AIDS harm reduction practices. In HIV and TB, targeted groups include most at-risk populations (MARPs), such as intravenous drug users (IDUs) and their sexual partners, incarcerated populations, men who have sex with men, sex workers and their clients, and vulnerable youth. Targeted beneficiaries for behavior change interventions in FP/RH activities are women of reproductive age with a special focus on young women and couples. This development objective will be achieved through four interdependent IRs: (1) Increased Client Knowledge and Awareness; (2) Improved Quality of Health Services; (3) More Sustainable Health Systems; and (4) Improved Enabling Environment.



USAID supports care centers for street children. (Photo: Natalya Kravchuk)

Efforts are focused primarily in the sector of infectious diseases (HIV/AIDS and TB), with important but modestly-funded program in FP/RH. In addition, when resources permit, the Mission provides moderate assistance in health reform and health systems strengthening. While USAID recognizes the need for improved health financing in order to achieve sustainable health systems, interventions that address health financing will be conducted as a component of other health interventions defined below. The geopolitical and strategic importance of

Ukraine from a foreign policy perspective adds additional importance to health programming as the Mission assists the GOU to achieve its goals in improving the health status of the population to meet United Nations Assembly Special Session targets in HIV/AIDS and Millennium Development health goals.

Although donor funding only accounts for 0.2-0.3% of total health spending in Ukraine, foreign donors are important catalysts to improving HIV and TB treatment within the health system and often provide support through local NGOs and civil society organizations. It is crucial to note that the Mission's health assistance to Ukraine alone cannot make a significant impact on the health status of the country. Only a coordinated, long-term, effort between the GOU, bilateral and multilateral donors, and civil society will improve the overall health status of Ukraine.

A number of international donor agencies also work on supporting family planning, reproductive health, child health, and women's health. Even at its current modest funding level, the USG is the largest bilateral donor in Ukraine in the health sector. Bilateral donors that work in Ukraine and provide programming related to HIV/AIDS, TB, and family planning include GIZ, SIDA, and the Swiss Agency for Development and Cooperation. Other important donors include the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Clinton Foundation, the Soros Foundation, and a Ukrainian donor — the Rinat Akhmetov Foundation for the Development of Ukraine. Additionally, international organizations such as the WHO, UN agencies, and the World Bank provide key technical assistance to the Ministry of Health.

Currently, Ukraine is implementing two Global Fund grants, one each on HIV/AIDS and TB. The \$295 million Round-10 HIV grant has three Principal Recipients. The co-Principal Recipients for this new grant are the Ukrainian State AIDS Centre, the International HIV/AIDS Alliance in Ukraine and the All-Ukrainian Network of People Living with HIV/AIDS. The latter two organizations were started and have grown with USAID assistance. The overall goal is to reduce HIV transmission and HIV- and AIDS-related morbidity and mortality through interventions focused on most at-risk populations. The grant began in 2012 and will run until 2016. More than 200 local NGO implementing partners in all 27 oblasts of Ukraine will work in close partnership with regional state AIDS centers as well as TB and sexually transmitted infection dispensaries and local communal pharmacies. The Rinat Akhmetov Foundation for Development of Ukraine was the Principal Recipient for the first phase of the \$95 million Round-9 TB grant, with a new Principal Recipient in 2013 to manage the second phase of the grant. This 5-year grant was signed in March 2011, with the goal of contributing to reducing the TB burden through expanding and enhancing access to high quality TB services.

Since independence, Ukraine has had a stark demographic decline combined with a health crisis. From 1991 to 2007, the population decreased by 12 percent or about 5.8 million people from 52 million to 46.2 million. There is considerable gender inequity in survival and health. Ukraine's men are dying prematurely and suffer some of the highest rates of disability in Europe and Central Asia due to non-communicable (chronic) disease. One third of Ukrainians die before the age of 65. The Mission's programming will, within resource constraints and the strategic parameters below, strive to promote healthy lifestyles in those social groups that may be affected disproportionately by the limited

governmental support of modern health protection practices in Ukraine: youth, elderly, rural and other low-income adult population.

A. Development Hypothesis

The development hypothesis is that healthier Ukrainians will live longer, contribute more broadly to and benefit from economic growth, and be able to better withstand economic shocks. Ukrainians will become healthier and live longer by increasing the use of targeted health practices, receiving higher quality health services from a more sustainable health system and by becoming better informed and aware of health issues, thereby increasing opportunities for greater participation in their health care and to demand more appropriate medical services. In addition to increased civic and economic participation, Ukrainians, in an improved enabling environment, will be able to contribute to a more stable and prosperous Ukraine. Transnational threats will be addressed by decreasing the spread of infectious diseases, specifically HIV/AIDS and TB.

B. Critical Assumptions and Risks

The Mission has made the following critical assumptions regarding the health sector that are necessary for its activities to have the expected outcomes and achieve DO 3:

- The GOU increases commitment to finance health services;
- The USG will receive projected funds for the next five years;
- The Global Fund TB and HIV grants for Ukraine are provided and used well;
- Ukraine has no major pandemics;
- International and bilateral donor programs continue and are expanded; and,
- High level of donor coordination continues.

The Mission also faces several risks in the health sector that it needs to be aware of and try to mitigate:

- Lack of capacity and political will of the GOU for effective stewardship, programming and implementation of evidence-based response in the health sector;
- No local producer of liquid methadone is found;
- Increased TB drug resistance resulting in more multi-drug resistant (MDR) and extensively drug resistant (XDR) TB cases;
- Increased access to information may not change behaviors as expected; and
- Frequent changes of key Ministry of Health officials may inhibit successful collaboration.

C. Intermediate Results

(1) Increased Client Knowledge and Awareness

The health challenge in the next decade is to increase, and in some circumstances, correct citizen knowledge; improve the quality of information and services; and remove barriers to access for the disadvantaged and most at risk populations. The USAID-assisted, WHO-led, evaluation of the national TB program found great variation in TB laboratory and treatment services. The inability to identify MDR-

and XDR-TB has contributed heavily to the spread of these dangerous strains of TB. TB is the most common cause of death among those with AIDS, and it is expected that TB mortality will increase in the near future given the parallel TB and HIV epidemics. Ukraine is in the unenviable position of having the eighth highest rate of MDR-TB in the world.

While the 2007 Demographic and Health Survey found that there was “nearly universal knowledge of contraceptives in Ukraine,” a 2010 USG-supported Knowledge, Attitudes and Practices survey found that this “knowledge” was superficial and in many cases incorrect, with clients and providers overestimating the risk associated with hormonal treatment methods and trusting in less effective methods such as withdrawal. USAID programs will seek to increase access to quality information and education about HIV/AIDS, TB and family planning.

(2) Improved Quality of Health Services

The GOU has made quality assurance and quality monitoring a priority for medical services, which includes the material and technical renovation of health facilities, better analysis and use of data, more evidence-based pilots for services, and the introduction of new technology and pharmaceuticals. The Mission is focusing its efforts on decreasing oblast level mortality through key cost-effective prevention measures to improve family planning/reproductive health services to the population and prevent HIV and TB transmission, all of which advance the GOU’s quality assurance objectives. Mission programs provide a package of evidence-based service delivery approaches to health care centers and promote partnership with the private sector. The Mission will continue to provide technical assistance to improve management, operations and information management. The Mission will support the drafting and testing of new standard operating procedures for the introduction of medically assisted therapy (MAT) for groups at risk for HIV, and the roll-out of locally produced liquid methadone in targeted areas with high concentrations of IDUs. Other areas of Mission support include improving access to and the quality of testing and related laboratory services. Additionally, the Mission will invest in technical assistance to support the distribution of contraceptives as well as HIV commodities.



The USAID HIV/AIDS prevention program helps infected women find support within their communities. (Photo: Natalya Kravchuk)

(3) More Sustainable Health Systems

The Mission supports the GOU's work on critical aspects of health reform, which address the issue of consolidation of health facilities and increased coordination for efficiency and greater quality of care. Monitoring and evaluation (M&E) is a particularly important area for technical assistance to the GOU. The Mission is strengthening the national surveillance systems for TB and HIV/AIDS as well as introducing tools for better analysis and use of data. USAID, as part of PEPFAR, is supporting sustainability planning in such areas as management and planning for civil society groups working on HIV. This project supports national policy development and capacity building of GOU officials. It also finances leading partners, such as the Ukrainian Red Cross, which has a nationwide volunteer network of 600,000 people, and a recognized track record of work in the health sector, as well as significant local private sector funding. The Mission is also investing in technical assistance to improve logistics for the



USAID supports free HIV protection services in pharmacies. (Photo: Natalya Kravchuk)

management of contraceptive distribution and improving supply chain management capacity for HIV and TB commodities. The MOH in the Autonomous Republic of Crimea is being supported to create a model for an efficient health care system at the tertiary level; this support includes the provision of analysis and recommendations on how to optimize hospital services in selected hospitals, improvement of financing, management and operations in these facilities and development of local capacity to implement health care reform.

(4) Improved Enabling Environment

Changes in behavior can only be achieved if citizens have access to appropriate information and services within a sustainable health care environment. This will facilitate provision of services to target populations. The Mission's programs will focus on removing legislative and regulatory barriers to NGO service provision and MAT expansion; and promoting the development of anti-discrimination laws and policies to ensure the legal protection of MARPs, including people living with HIV. Another policy priority is increasing GOU funding for local HIV-service NGOs.

D. Donor Coordination

The Mission engages in donor coordination activities, builds partnerships, and forms strategic alliances across the health portfolio. In the area of HIV/AIDS, the main bilateral, multilateral, and private donors include: the USG; UN agencies such as the Joint UN Program on HIV and AIDS (UNAIDS), WHO, and United Nations Children's Fund (UNICEF); Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund); GIZ; and the Clinton Foundation. The Global Fund grant on HIV/AIDS works through its principal recipients to provide HIV prevention services for most-at-risk populations such as integrated MAT services for IDUs, deliver community-based care and support services for people living with HIV/AIDS

(PLWHA), purchase HIV test kits, and conduct advocacy and social mobilization activities, among others. UN organizations are working in many areas of HIV/AIDS, including HIV prevention in the workplace, improving access to essential medicines, and gender and human rights issues. Currently, UNAIDS is supporting the World Bank on a cost-efficiency study examining the needle-syringe program and MAT and ARV services. GIZ trains multidisciplinary teams on provision of MAT, supports activities to promote tolerance, acceptance and reduce human rights violations of PLWHA, and carries out other HIV prevention activities focused on MARPs. The focus areas of the Clinton Foundation are HIV diagnostics, treatment, and care such as supporting scale-up of HIV rapid testing nationwide, providing clinical HIV/TB training and mentoring, and providing technical assistance in national reference lab and regional HIV Center capacity development. In addition, the International Renaissance Foundation (IRF) of the Soros Foundation provides assistance in harm reduction, community mobilization, and advocacy of human rights for people living with and affected by HIV/AIDS.

As the largest bilateral donor in HIV/AIDS, the Mission works closely with the MOH and other HIV/AIDS donors, to increase the impact and efficiency of HIV/AIDS services. USAID is recognized as a premier source of technical assistance in strategic planning, policy, and service improvement. USAID does not have the resources to take most interventions to scale. Coordination of efforts with the Global Fund, which has considerable resources for service delivery, but few for technical assistance, will be critical to meeting objectives. Through the HIV/AIDS Partnership Framework Agreement, and the GHI Strategy, the USG plays a leading role in donor and stakeholder coordination, as well as strengthening host country commitment.

In TB, the Mission partners with the MOH, which recently established the State Service of Ukraine on Social Diseases to expand state-of-the art TB control activities to contain MDR-TB and strengthen approaches to diagnose and treat TB/HIV co-infection. USAID plans to partner with the private sector for the local production and distribution of liquid methadone. Collaboration on TB projects is done via a Memorandum of Understanding with the Ukraine Development Foundation, the leading local private sector donor in TB prevention. Additionally, the Mission partners with the Ukrainian Red Cross to address stigma issues, TB prevention and treatment. The Ukrainian Red Cross brings to this partnership with USAID a wealth of experience in community-based programming for TB prevention and control.

USAID is the leading bilateral donor in family planning/reproductive health (FP/RH) and maternal and child health (MCH). No other donor is dedicating significant resources to these issues. Other donors working in these health areas include the Swiss Agency for Development and Cooperation (SDC), UNICEF, and the United Nations Population Fund (UNFPA). Specifically, SDC focuses on improving the quality and efficiency of perinatal services, while UNICEF, with assistance from USAID, is implementing the Multiple Indicator Cluster Survey (MICS) and supporting the Ukrainian Presidential Perinatal Initiative. In the area of FP/RH, UNFPA aims to increase access to and use of modern family planning methods. The Mission collaborates closely with the SDC and UNICEF, which have modest programs, to facilitate the broadening of USG-developed interventions to improve prenatal care. In addition, for family planning and reproductive health, the Mission is collaborating with the UNFPA for procuring FP commodities and promoting modern family planning methods. Recently, USAID and UNFPA signed a Memorandum of Understanding that outlines both parties' intention to focus joint activities in order to:

1) increase appropriate and effective use of modern contraceptive methods; 2) strengthen national capacity to develop, implement and monitor reproductive health and family planning policies and standards of care; and 3) promote health-seeking behavior among young people and the population of reproductive age to improve sexual and reproductive health. In 15 of 27 oblasts, the Mission's investments in FP are matched by local government funds and in-kind contributions.

As the largest bilateral donor in the health sector, USAID provides technical expertise, coordination, and complementarity (*vis-à-vis* other donors, such as the Global Fund) to strengthen the capacity of GOU and CSOs in the areas of HIV/AIDS, TB, and FP/RH. USAID is also unique in its focus on strengthening capacity and prominence of civil society to implement prevention and service improvement efforts.

E. GOU Commitment

Under the U.S. President's Global Health Initiative and Emergency Plan for AIDS Relief, on February 15, 2011, the U.S. Office of the Global Aids Coordinator signed the Partnership Framework agreement (PF) between the Government of the United States and the Cabinet of Ministers of Ukraine on *Cooperation in Countering HIV/AIDS in 2011-2015*, which serves as an umbrella for ongoing and expanded HIV/AIDS programs in Ukraine. Under the PF, the USG will support HIV prevention among MARPs and TB/HIV co-infection. The USG will: 1) expand access to quality HIV/AIDS prevention, treatment, care and support services for MARPs; 2) support the development of public and NGO institutional capacities to plan, manage and evaluate HIV/AIDS programs; 3) address the policy, legal, regulatory and fiscal barriers inhibiting access to quality HIV/AIDS-related services that meet international standards; and 4) increase the institutional capacity of civil society and public sector institutions to ensure the sustainable delivery of quality services.

F. Gender Issues

Gender considerations are integrated across the health portfolio and within every project design. Men and women are affected differently by different diseases, which require specific measures on the part of USAID to tailor its interventions in order to be effective and to not adversely affect one sex.

In HIV/AIDS, while there are a relatively equal number of HIV-positive men and women in Ukraine, disease vectors vary widely, making women more vulnerable to infection due to social and economic circumstances. Moreover women, due to their caregiver status, often have limited access to HIV services. Prevention programs do not yet address male partners' violence as a risk factor for female partners forced into unprotected sex, selling sex, or sharing injecting instruments. Moreover, this factor is often ignored or even tolerated by the general population, including health workers, trapped in long-rooted cultural traditions and 'patriarchal' family values. Mission programs will continue to analyze and address these issues, including through an increased use of local NGOs in the implementation of programs fighting stigma and discrimination.

According to available data, males are almost three times more likely to develop TB in Ukraine than females. With improved surveillance and TB case findings, new data could be assessed to determine whether there are risk factors that explain the gender differences or whether access to care issues may

be preventing female cases from being detected. Given the nature of tuberculosis and possible ways of dissemination and contracting this infectious disease, the Mission TB program will strive to improve case detection among women and will incorporate innovative methods to reduce gender barriers to appropriate TB treatment and care.

Family planning and reproductive health program will be aimed at improving the health status of women, men and couples. The FP program will focus on behavior change and communication (BCC) activities designed to inform couples so they can use modern FP methods appropriate for their life stage more effectively. BCC activities will also encourage men to become more responsible for family planning decision making. The program will design messages for couples, women and men that use various channels of communication and that are most likely to reach the intended audience and have the greatest impact on their behavior. Since youth have limited access to FP information, the program will also address the informational needs of young men and women by supporting the existing school-based FP/RH training courses.

G. Linkages to Other USAID and USG Programs

The Mission's health strategy is a "whole-of-government" approach that brings together every participating USG agency's core competencies. The approach is particularly evident through PEPFAR, which combines interagency coordination and a division of labor based on technical and operational expertise to target specific Ukrainian populations and strategically decide how to provide the most effective interventions. The USG is viewed as the preeminent bilateral health donor in Ukraine. The combined range of expertise and assistance offered by the Centers for Disease Control, the Department of Defense, the Peace Corps and USAID makes it possible to work with all levels of government including with the military, academic and research institutions, civil society groups, communities, and MARPs.

A direct linkage exists between this development objective and development objective 1. Health programs complement democracy and governance programs on approaches to civil society strengthening in the program area of FP/RH and HIV prevention. These activities develop institutional capacity of civil society in FP/RH. Additionally, the health portfolio augments democracy and governance work in human rights, specifically the rights of patients.

VIII. CROSS-CUTTING ISSUES

A. Corruption

To address the issue of on-going corruption in Ukraine and enhance the transparency of the GOU, USAID will insure that many of its programs incorporate the goal of combating corruption. In past programming, the most successful interventions have been those that provided specific, targeted tools to combat specific problems. Thus, in order to enhance the transparency of the judicial selection process and the professionalism of the judicial corps, the Rule of Law project will continue to help the High Qualifications Commission of Judges (HQC) develop and implement the methodology and validation process for anonymous judicial testing. Another USG-supported standardized test procedure,



USAID supports national testing for judicial candidates. (Photo: USAID FAIR)

the Ukrainian Standardized External Testing Initiative (USETI), targets corrupt practices associated with admissions to institutions of higher education. By introducing standardized external testing as a mandatory criterion for university admissions, USETI reduces corruption and increases transparency in the admissions process. The Ukrainian Ministry of Science and Education has made testing the primary nationwide admissions criterion.

An additional USAID corruption-reducing activity ensures freedom of and access to information. In 2011, the Verkhovna Rada passed the Access to Public Information Law, which allows citizens to request information from any public or private office financed from the state budget. By supporting training to both government entities and CSOs, USAID will provide both state and private actors the tools necessary to take full advantage of the Law. Further enhancing public access to information, public filing of companies' financial reports is another essential activity in improving transparency and fighting corruption. The Ukrainian Electronic Disclosure System (ESCRIN), a collaborative effort between USAID, the Ukrainian Securities Commission and market participants, is an innovative system that attempts to make financial reports public. This effort has introduced free public access to information so that companies can demonstrate their potential to investors seeking to secure a competitive return for their capital. ESCRIN now receives quarterly and ad hoc financial reports from the 130 largest public joint stock companies in Ukraine and instantaneously posts them for the public. The GOU has described ESCRIN as "one of the ten most significant events in the development of Ukraine's capital markets," encouraging a more open and investor-friendly investment environment.

Improving transparency in governance and supporting anti-corruption efforts is prominent in all three Development Objectives. Project Design efforts implemented in support of this CDCS will consider the extent to which activities will help empower citizens to combat corruption.

B. Sustainable Human Capacity Development

Although Ukraine has high potential for rapid economic growth and increased integration into the global economy, its potential is not being met. Each proposed Development Objective emphasizes opportunities to generate the human capacity and workforce skills needed to promote the country's development so that local actors can sustain key programs beyond the duration of USG funding. Sustainable human capacity development is essential to securing Ukraine's stability and prosperity, including through development of a modern workforce and the necessary tools for efficient and effective governance. The Mission will undertake a two-track approach: first, a Mission working group has been established to accelerate the transfer of implementation of USAID programming to local entities. The Mission has developed a five-year planning budget, consistent with the CDCS, which identifies activities which the Mission will strive to design for implementation through local partners. Second, activity designs will emphasize legacy planning, including embedding USAID tools into local organizations as a component of programming, ensuring that building the capacity necessary to sustain results beyond the duration of USG support is a regular part of activity implementation. These organizations may include universities and institutes of higher education, particularly in areas where the USG has made a significant investment (such as economics, rule of law, or health).

A combination of sustained capacity and carefully sequenced reforms is required to foster quality workforce development systems, the technical expertise needed to implement democratic norms of governance, and the knowledge necessary for the development of a responsive health care system. The beneficiaries of sustainable human capacity development efforts will include national and local governments, CSOs, and business associations.

C. Empowering Local Leaders

Empowering local government stimulates better governance and accountability at all levels. In order to promote the independence of local leadership of all kinds, Mission activities at the national level will address current challenges to democratic development. To ensure that the targeted reforms are inclusive of citizen input and that the implementation of these reforms and government activities are subject to citizen oversight more generally, the Mission's activities will target civil society and the media, including from outside of Kyiv, with a specific focus on building their capacity to participate in and monitor governance processes. Direct beneficiaries will include civil society organizations (CSOs), journalists and other members of the media, reform-minded members of the GOU and judiciary, and legal practitioners.

At the local level, Mission activities will address the need to support further decentralization of authority to empower local leaders and build more participatory processes, benefiting managers and administrators as well as ordinary citizens. Programs aimed at strengthening micro-, small-, and medium-enterprises will recognize the key role that local government plays in facilitating business entry, and help local government and business advocate against centralization of these processes. Furthermore, through local public-private partnerships, business and government leaders at the local

level can improve economic opportunity in their communities. Activities promoting economic development give local economic leaders an even greater stake in the governance of their locales, creating incentive for broader participation in and oversight of policy making. Health activities not only stabilize communities by reducing morbidity and mortality, but also contribute to the strengthening of local health systems. Empowering local health leaders to participate more actively in a system largely dominated by the state broadens the base of actors with an interest in the development of local systems, promoting greater participation in health governance, while also helping decentralize planning and budgeting in the health sector so that decisions are made by those most informed by real conditions.

D. Gender

USAID/Ukraine uses a cross-cutting approach of integrating gender concerns in all its programs. Gender integration is an ongoing process of assessing the implications of any planned initiative for both women and men, including in legislation, policies, and programs on all levels. This strategic approach allows USAID to make gender concerns an integral dimension in the design, implementation, monitoring and evaluation of policies and programs. The most recent Ukraine gender assessment reaffirms that development programs are more likely to achieve their desired outcomes, result in greater social equity, and lead to lasting transformational development when gender gaps and inequalities are addressed. Despite these findings, as well as the existence of a robust legal framework in-country, gender remains a serious challenge in Ukraine: gender equality is not prioritized in national policy; the new National Program on gender equality has not yet been endorsed; sexism continues unabated in mass media, advertising, and even the statements of high level officials; men have limited rights for child custody upon divorce; and state ignorance of the need for a social protection system for victims of human trafficking persists. USAID/Ukraine will implement key recommendations of the June 2011 Ukraine Gender Analysis, including fostering the participation of women in political processes and civil society activities; continuing efforts on gender integration in USAID programming; engaging local gender experts and organizations to promote gender equality in project design; and developing dialogue between donors to coordinate efforts and contribute to the achievement of results. Additional priority gender actions are listed in each Development Objective.

The USAID Monitoring Country Progress includes a 'Gender Equality' indicator. This indicator shows that Ukraine ranks 61 out of 140 countries, and is among the bottom third of E&E countries. The indicator is an index that includes three dimensions: reproductive health, political empowerment, and labor market participation. These indexes correlate with the gender objectives of the Mission. It is unclear whether USAID action will be sufficient to have an impact on these indicators, particularly labor market participation, and in the development of the Mission PMP, the Mission will consider whether this index may be used to gauge progress on this issue. If Ukraine continues to slide on this and other key gender indices and indicators, the Mission will consider additional or alternative activities that could combat this trend.

E. Euro-Atlantic Integration

Fostering Ukraine's integration into Europe remains a major diplomacy goal of the USG. As Ukraine progresses along a path toward Europe, opportunities will arise to leverage EU commitments to advance democratic, economic, and social reforms critical to meeting USAID development objectives. For example, Ukraine is a member of, or signatory to, the World Trade Organization, European Energy Community, the United Nations Framework on Climate Change, the Covenant of Mayors, and others. Each of these commitments requires Ukraine to adopt reforms that are consistent with international standards and best practices. In the justice sector, Ukraine's ability to reform legislation so that it meets the requirements of the Venice Commission is critical to advancing a relationship with Europe. USAID will seek to advance understanding of international norms and principles, and EU requirements, across the portfolio.

IX. SPECIAL OBJECTIVE 1: SUPPORT FOR THE CHORNOBYL SHELTER FUND

USAID will continue to support the final decommissioning and dismantling of the Chornobyl nuclear plant unit 4 by contributing to the EBRD-administered Chornobyl Shelter Fund (CSF). The CSF was created in 1997 by the international donor community, led by the Group of 7 (G7), to implement a long-term strategy for the site of unit 4 where the 1986 Chornobyl core meltdown occurred. This strategy was called the Shelter Implementation Plan (SIP), which proposed the construction of a New Safe Confinement structure to be moved in place over the existing “sarcophagus” and be equipped with cranes and other robotic devices to dismantle the old shelter components and safely process them over the next 100 years.

The SIP work is complemented by a separate activity funded by the Nuclear Safety Account (NSA) created by the EBRD in 1993 as a G7 initiative to support safety assessments and upgrades of old Soviet designed nuclear power plants. The NSA is funding two decommissioning facilities at Chornobyl, one to treat liquid radioactive waste from units 1-3 and an Interim Storage Facility to provide for 100 years of dry storage for the spent fuel assemblies from these three units.

The USG selected USAID to be the primary conduit to meet the commitment for support of the CSF and the NSA. The USG is the largest bilateral contributor to the CSF and the NSA. The U.S. Department of Energy has also participated in the CSF. To date USAID has provided over \$200 million to the CSF and the NSA through separate grant agreements. The NSA grant agreement has already expired. The CSF has over 23 country donors as well as the European Community. They are all represented on an Assembly of Contributors at the CSF that approves funding commitments to contractors selected to carry out the SIP. USAID expects to complete the remaining commitments of \$114 million by the end of the current CSF grant program in December of 2014. Six additional obligations of \$19 million are expected through FY 2015.

The total expected cost for the SIP is now 1.6 billion Euros, of which the CSF has already provided almost 1.0 billion. Therefore there is a shortfall of 600 million Euros that the EBRD hopes to receive through new pledge agreements from the donors.

The SIP activity is not directly related to USAID’s overall Strategic Goal for Ukraine, but rather reflects the USG decision to fulfill a longstanding commitment to complete the shelter activity. It is therefore a Special Objective. In light of USAID Forward’s objective to focus on innovative science and technology applications to problems, the SIP activity may be a unique source of engineering and scientific knowledge in an area where USAID has little other engagement worldwide.

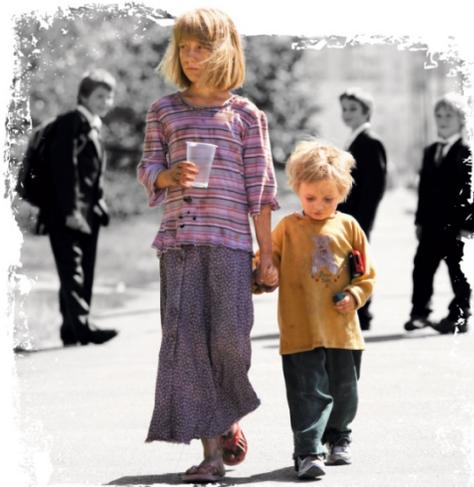
X. SPECIAL OBJECTIVE 2: COUNTERING TRAFFICKING IN PERSONS

Ukraine is a country of origin, transit, and destination for women, men, and children being trafficked. The 2011 Department of State TIP Report placed Ukraine on the Tier 2 List, which includes countries whose governments do not fully comply with the Trafficking Victims Protection Act. Countering Trafficking in Persons (CTIP) activities support comprehensive action in the areas of: (1) advocacy and capacity building; (2) prevention of trafficking; (3) reintegration assistance to victims; and (4) economic empowerment.

In adherence to the USAID CTIP Policy guiding principles, a large part of USAID's CTIP effort will be devoted to building and promoting partnerships. CTIP will focus on establishing multi-disciplinary task groups (MDTGs) to pilot the National Referral Mechanism (NRM) for victims of trafficking (VOTs). NRM is a group effort undertaken by the GOU and civil society to implement counter-trafficking activities, including reintegration assistance to victims of trafficking and is expected to become part of the state social assistance framework. The mechanism, if implemented effectively, will serve as a sustainable system of victim identification, referral and assistance provided by governmental agencies and appropriate NGOs or CSOs. MDTGs will be established in three regions to develop an identification and assistance mechanism for VOTs. Currently, donors provide much of the funding for these services, however it is envisaged that the government will take on budget responsibility in the future. Nonetheless, the NRM represents an innovation for Ukraine, facilitating and streamlining the assistance to VOTs, ensuring that they receive the services they need.

An additional area of focus for CTIP will be to promote the employment of underprivileged populations, at-risk groups, and members of their families. Activities will include vocational and job skills training programs, support for self-employment initiatives (e.g. grants to purchase income-generating equipment), and a microenterprise development program. To develop microenterprises, local NGOs will select and train potential entrepreneurs from vulnerable groups and VOTs, evaluate business plans, assist beneficiaries in starting their own small businesses, and provide ongoing support to the beneficiaries. Small grants will also be awarded

**YOUR MONEY WILL NOT HELP THESE CHILDREN
IT WILL ONLY HELP THOSE
FORCING THEM TO BEG!**



**IF YOU SEE A BEGGING CHILD, PLEASE DON'T GIVE MONEY.
INFORM THE POLICE OR ASK A VOLUNTEER TO CALL**

Criminal Police for Juvenile Affairs, Ministry of Interior, Kyiv City

271 99 11

National Counter-Trafficking Helpline

527 toll-free from mobile phones in Ukraine
(Mon-Sun 9:00 — 21:00)

0 800 505 501 toll-free from landline phones in Ukraine



This leaflet is made possible by the generous support of the American people through the United States Agency for International Development (USAID) within the framework of the Counter-Trafficking Program of the International Organization for Migration (IOM).



A trafficking in persons awareness campaign poster. (Photo: International Organization for Migration)

to help VOTs start their businesses. It is expected that these microenterprises will provide a source of income to the VOTs and their families and make them less vulnerable to the risk of being re-trafficked.

GOU and civil society organizations will be supported through: 1) funding a Countering Trafficking Advisor to the newly-assigned agency that coordinates trafficking issues; and 2) providing capacity building activities for GOU agencies involved with the NRM. Support will also be provided to civil society in the form of training, facilitated meetings, and consultations with experts. These measures will strengthen the sustainability of non-governmental service providers and their ability to interact with the GOU.

CTIP will also help build the capacity of the educational system in Ukraine to provide career counseling services to young people. A curriculum developed in 2010 will be piloted in selected schools to help high school graduates better understand their professional options in Ukraine after graduation and ensure that they become productive, well-adjusted adults rather than VOTs. The program will include prevention activities, training, technical assistance and advocacy initiatives, as well as direct assistance to 200 newly-identified VOTs.

USAID's legacy of over ten years of participation in CTIP activities and a mix of approaches adapted to the local context have given USAID a comparative advantage in this field. Furthermore, in partnership with the International Organization for Migration, efforts are coordinated across donors allowing for a division of labor within the sector and avoiding duplication.

The end results to be attained by this special objective include: (1) development of the National Action Plan based on the recently approved Anti-Human Trafficking Law; (2) increased sustainability of NGOs working with VOTs; (3) raised awareness of lesser known forms of trafficking trends (internal trafficking, labor exploitation, trafficking of men); (4) improved identification and better access to reintegration services for specific VOT groups (men, minors, foreign nationals, etc.); and (5) improved economic standing of participants via the professional / job skills trainings.