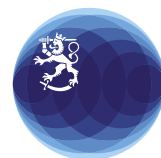




# Strategy for Development Cooperation **UKRAINE 2018-2022**



MINISTRY FOR FOREIGN AFFAIRS

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## Executive Summary

Ukraine is still on a challenging road, transitioning from a planned economy towards the rule of law and market economy in the midst of an armed conflict. The Ukrainian Government's unexpected suspension of preparations to sign an Association Agreement with the European Union in November 2013 led to civil unrest, and ultimately to the collapse of the Government in February 2014 as well as to the illegal annexation of Crimea by Russia in March 2014. Backed by Russia, separatist armed forces in certain parts of Donetsk and Luhansk regions declared independence from Ukraine in May 2014, which led to military confrontation with Ukrainian forces. A ceasefire was agreed in September 2014, but it has never been fully effective. As of now, nearly 11,000 people have died and 3 million have been displaced as a result of the conflict.

The EU's Russia policy following the illegal annexation of Crimea and the outbreak of the conflict in eastern Ukraine is guided by five principles. One of these principles is to provide increased support and have closer relations with EU's Eastern Neighbourhood and Central Asia. The EU Member States have increased their political and economic support accordingly. The EU Association Agreement, including the Deep and Comprehensive Free Trade Agreement (DCFTA) with Ukraine, was signed in June 2014 but entered into force fully in September 2017. The DCFTA has been applied provisionally since beginning of January 2016. These agreements offer substantial guidance for Ukraine's reform programme.

Ukraine experienced a major economic crisis in 2014–2015. The conflict in Donbas caused significant contraction of industrial production and widespread disruption in supply and distribution chains. In consequence, the GDP shrank substantially, the value of the hryvnia collapsed, and the external debt rose sharply. The reforms implemented in 2014 and 2015 managed to stabilize the economy, and the real GDP grew by 2.3% in 2016 and 2% in 2017. Owing to the backlog of reforms and the ongoing conflict, prospects for sustained economic recovery remain modest.



## UKRAINE

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Relations between Finland and Ukraine are good and without problems. Due to the physical proximity, there is vast but at least partially untapped potential for trade and other types of cooperation. The volume of trade has varied considerably, but the value of exports from Finland to Ukraine has clearly exceeded the value of imports from Ukraine to Finland. At present about 100 Finnish companies operate on the Ukrainian market, about 25 of them permanently. The annual bilateral trade flow in 2017 was a little over EUR 300 million. Finnish culture and arts are also well known in Ukraine.

Since the conflict broke out, Finland's support to Ukraine has totalled more than EUR 37 million, and has included development cooperation, humanitarian aid, demining, crisis management and expert secondments.

With the introduction of this strategy, Finland commences a multi-year programming of development cooperation with Ukraine. The main sectors of cooperation are education and energy efficiency. Finland also supports structural reforms.

# 1) Country Context

## Political, economic and social development

In November 2013, the Ukrainian Government's unexpected suspension of preparations to sign an Association Agreement with the European Union, added to the population's widespread frustration with high-level corruption, led to the Euromaidan demonstrations, which culminated in the departure of President Yanukovich from Ukraine in February 2014. Following the collapse of the Yanukovich Government, events in Crimea in March 2014 led to the adoption of UNGA Resolution 68/262 affirming the territorial integrity of Ukraine.

Separatist armed groups backed by Russia occupied government buildings in certain parts of Donetsk and Luhansk regions in April 2014 and declared independence from Ukraine in May. This led to military confrontation with Ukrainian forces. A ceasefire was agreed in September 2014, but it has never been fully effective. As of now, nearly 11,000 people have died as a result of the conflict and almost 3 million have been displaced – nearly 2 million within Ukraine and around 1 million outside the country.

Petro Poroshenko won the presidential elections held in May 2014, and a new pro-reform Government was formed in December 2014. The Government was expected to pursue reforms but faced formidable challenges, including the restoration of peace in Donbas, ensuring macroeconomic stability, tackling the banking crisis and reducing the fiscal deficit in the midst of a recession without triggering social unrest, as well as reducing deep-rooted corruption while contending with powerful vested interests that opposed reforms. The Government initially pursued strong reforms, but the pace of reform slowed soon as a result of increasing political uncertainty and the influence of vested interests.

The break-up of the governing parliamentary coalition in early 2016 led to the appointment of a new Prime Minister and a new Government in April 2016. The new Government pledged to continue economic reforms and presented a Government Programme and Action Plan, which was updated in April

2017. The fact that the Government has only a slim majority in Parliament jeopardizes the approval of key reforms. Despite the substantial results achieved by the reform process under difficult circumstances, public dissatisfaction with the pace and depth of anticorruption measures and concerns about the vested interests in the Parliament and Government remain strong.

The EU Association Agreement and the Deep and Comprehensive Free Trade Agreement (DCFTA) entered fully into force on 1 September 2017. This agreement offers substantial opportunities for the expansion of trade with the EU. It also provides strong guidance for Ukraine's reform programme. Through DCFTA, the trade between the EU and Ukraine has increased substantially. Over 40 % of Ukraine's export is to the EU. EU's share of Ukraine's overall import is also over 40%.

Unprecedented external shocks combined with limited progress on structural reforms led to a major economic crisis in 2014–2015. The conflict caused significant contraction of industrial production and widespread disruption in supply and distribution chains. In addition, the sharp drop in global commodity prices caused a deterioration of Ukraine's terms of trade. In consequence, the real GDP contracted by 6.6% in 2014 and further by 9.8% in 2015. The hryvnia depreciated by 47% in 2014 and further by 33% in 2015. The deep recession and depreciation caused deposit outflows, rising levels of nonperforming loans and a large number of bank failures, further reducing confidence in the economy. Total external debt rose from 79% of GDP in 2013 to 130% in 2016.

Key reforms implemented in 2014 and 2015 included changing to a flexible exchange rate, significant fiscal consolidation, reforming energy tariffs, strengthening social safety nets, stabilizing the banking sector, improving public procurement, external audit and investment management as well as key anticorruption instruments. As a result of these reforms, the economy has stabilized, with real GDP growing by 2.3% in 2016 and 2% in 2017.

Owing to the backlog of reforms and the ongoing conflict in eastern Ukraine, prospects for sustained economic recovery remain modest. There are considerable medium-term fiscal pressures and, in the future, fiscal consolidation will require systematic reforms to manage the largest sources of fiscal vulnerability and to improve the tax administration. Ukraine will require significant external financ-

ing (around EUR 5–6 billion annually) to meet repayments of the external debt of banks and corporations in 2018–2019. A condition of external assistance is proceeding with reforms.

The deep recession, depreciation, and compression of public current expenditure have contributed to the significant contraction of incomes in Ukraine and to the poverty rate (under USD 5 per day in 2005 PPP), increasing from 3.3% in 2014 to 5.8% in 2015, while moderate poverty (using the World Bank national methodology for Ukraine) increased from 15.2% to 22.2%. Unemployment, access to services and social tensions have affected the conflict areas in particular. Poor households were also affected by the dramatic increase in energy prices in 2015, although the new household utility subsidy (which covered over 6.5 million households at the end of 2016) has mitigated the impact.

The World Bank has identified macroeconomic instability, weak private sector productivity, and ineffective service delivery as the key challenges Ukraine faces in achieving sustainable recovery and shared prosperity. It also notes that widespread corruption and State capture are fundamental constraints impeding progress in addressing each of the challenges described above. Widespread tax evasion undermines macroeconomic stability, while the highly concentrated and anticompetitive production structure inhibits the growth of productivity and job creation. Weakness in the management of public resources impedes efficient public service delivery despite high levels of expenditure.

Ukraine's Human Development Index value for 2016 placed the country 84<sup>th</sup> out of 188 countries, while the EIA Democracy Index 2017 ranked Ukraine 83<sup>rd</sup> out of 167 countries. Ukraine did less well in the Press Freedom Index 2018 (100<sup>th</sup> out of 180 countries) and especially in the Transparency International Corruption Perception Index 2017 (130<sup>th</sup> out of 180 countries). Ukraine's most recent Universal Periodic Review was held in November 2017. That review noted substantial progress but also found that much remains to be done before the next review in 2022.

## 2) Finland's Relations with Ukraine

Finland and Ukraine enjoyed diplomatic relations for a short period already in 1918. Finland recognized the independence of Ukraine for the second time on 30 December 1991, and diplomatic relations were established on 26 February 1992. Finland has an embassy in Kyiv and Ukraine has an embassy in Helsinki. Bilateral relations have intensified and deepened since the illegal annexation of Crimea and the outbreak of conflict in eastern Ukraine. Cooperation is based on agreements between the EU and Ukraine and on other international agreements and commitments. Finland fully supports Ukraine's territorial integrity and sovereignty.

Due to the physical proximity, there is vast potential for trade and economic cooperation between the two countries. During the 2010s, the volume of the trade has fluctuated substantially, but exports from Finland to Ukraine have clearly exceeded the value of imports from Ukraine to Finland. The highest value of Finnish exports was EUR 408 million (2012) and the lowest EUR 174 million (2016). In 2017, the value of Finnish exports to Ukraine was EUR 199 million. The highest value of Ukrainian imports to Finland was EUR 134 million (2014) and the lowest EUR 49 million (2010). In 2017, the value of Ukrainian imports to Finland was EUR 106 million. Trade between Ukraine and Finland consists of quite traditional items: Finland exports paper and cardboard products, medicine and pharmaceutical products, and mineral oils and oil products. Ukraine exports iron and steel, machines, and clothes. New and innovative business possibilities should be found.

At present, about 100 Finnish companies operate on the Ukrainian market, about 25 of them permanently. Due to uncertainties concerning the business environment and shortcomings in the rule of law, Finnish companies have been rather cautious when planning investments in Ukraine. The value of Finnish investment in Ukraine is around EUR 120 million. Lately there have been signs of new interest with regard to investing in Ukraine, which is well justified by the improved business environment – in 2012, Ukraine ranked 150<sup>th</sup> out of 183 countries on the World Bank ease of doing business index, while in 2018, Ukraine's rank is 76<sup>th</sup> out of 190 countries.



Ukrainians have a positive basic attitude towards Finland, and there is much positive interest in Finland. This forms a good foundation for bilateral cultural cooperation. The Finnish language is taught in the Scandinavian school of Kyiv and in three universities. Finnish literature, music, theatre, cinema and arts are well known in Ukraine. On the local level, friendship arrangements between Ukrainian and Finnish cities are well established. Oulu and Odessa are sister cities, and both Helsinki and Tampere are friendship cities of Kyiv.



### 3) Development Cooperation Context

Ukraine has been classified as a lower middle income country with a GDP per capita (2017, current prices) of USD 2640. The total net ODA in 2016 was USD 1.523 million. The largest donors are the European Union (EU), Japan, the United States and Germany, all of them providing more than USD 100 million annually. In addition, the World Bank and the European Bank for Reconstruction and Development (EBRD) have major portfolios in Ukraine. Other major bilateral donors are Canada, the UK, Switzerland and Sweden, which provide from USD 30 to 100 million annually.

Development funding to Ukraine increased rapidly with the emerging conflict in 2014. It almost doubled from 2013 (USD 791 million) to 2014 (USD 1404 million) and has remained on a high level ever since. The rapid increase in aid levels and unrealistic expectations regarding Ukraine's ability to carry out structural reforms have led to bottlenecks and disbursement problems in certain fields. Political stabilization, renewed economic growth and advances made in reform process have, however, made it possible for the EU to return to normal multi-annual programming in the form of the *2018-2020 Single Support Framework*.

The *Medium Term Action Plan Until 2020* and the *Priority Action Plan* adopted by the Government of Ukraine in April 2017 set the goal of "increased standards of living and quality of life via sustainable

economic development”. These two plans form the basis for mid-term budget planning and action plans. The following five strategic priorities have been set:

1. Economic growth (by increasing exports and investment, deregulation, privatization, land reform, energy sector reform, etc.)
2. Good governance (by reforming public administration, decentralization, etc.)
3. Human capital development (by reforming education and healthcare systems, etc.)
4. Supremacy of the law and combating corruption (by supporting anti-corruption organizations, etc.)
5. Security and defence.

The Government, with the assistance of the UNDP, is also preparing the *Sustainable Development Strategy for Ukraine 2030* and the *National Action Plan on the Strategy Implementation by 2020*. Drafts of these were published in 2017. The SDGs of Agenda 2030 will be fully covered by this strategy, which is still awaiting final approval. The Government of Ukraine is also preparing a *Low Carbon Development Strategy of Ukraine to 2050* (now in draft form). In February 2018, the environment minister of Ukraine set the target of reducing emissions by 66–69% from the 1990 level by 2050.

## 4) Finland's Development Cooperation with Ukraine

The EU development cooperation in Ukraine is guided by the European Neighbourhood Policy (ENP) and implemented through the 2018–2020 Single Support Framework (SSF). Finland's development cooperation in Ukraine is in line with the ENP and is closely coordinated and partly implemented with activities included in the SSF. Finland's development cooperation in Ukraine is also well in line with the following Ukrainian Medium Term Action Plan priorities: 1) Economic growth (Energy Efficiency Fund); 2) Good governance (support for the Council of Europe's Action Plan for Ukraine); and 3) Human capital development (Support to education sector reform). Finland's development cooperation in Ukraine supports Finland's Development Policy priority areas: 1) The rights and status of women and girls have been enhanced; 3) Societies have become more democratic and better functioning; and 4) Food security and access to water and energy have improved, and natural resources are used sustainably.

The main sectors of cooperation are education and energy efficiency. Structural reform processes to strengthen human rights and rule of law are also supported. The ongoing activities begin in 2018 or early 2019 and will last for four years. During the strategy period, Finland will seek new areas of cooperation especially in the field of education, working closely with the EU Delegation in Kyiv and the Support Group for Ukraine (SGUA) in Brussels. A Finnish expert has been seconded to the SGUA for the post of education and social sector coordinator, and the Embassy of Finland in Kyiv has been strengthened with an education sector expert.

The roots of Finland's development cooperation in Ukraine lie in Finland's Neighbouring Area Cooperation with Ukraine, in which energy efficiency was one of the main sectors of cooperation. In 2006, Ukraine was classified as a developing country and funding of cooperation was transferred to the development cooperation budget. In 2009, Ukraine became one of the target countries for Finland's

Wider Europe Initiative; in 2009-2013, the main objective of cooperation was mitigation of and adaptation to climate change.

Finland's total support to Ukraine between 2014 and 2018 amounts to EUR 37 million. Since the conflict broke out in 2014, Finland has provided EUR 3.5 million in funding to the Nordic Environment Finance Corporation (Nefco) Nordic Energy Efficiency and Humanitarian Support initiative to Ukraine (NIU). A major share of this assistance has been used to establish a prefabricated energy-efficient school in Kherson. Finland also supported the Council of Europe's Action Plan for Ukraine as well as the EBRD Ukraine Multi-Donor Fund.

In addition to development cooperation, Finland has supported the stabilization of Ukraine in several ways since 2014, including support to the OSCE Special Monitoring Mission and other expert secondments, humanitarian assistance, crisis management and humanitarian mine action. Currently, there are some 20 seconded Finnish civilian crisis management experts in the OSCE Special Monitoring Mission (SMMU) as well as 6 experts with the European Union Advisory Mission (EUAM) in Ukraine. The SMMU contributes to reducing tensions and to help foster peace, stability and security by engaging with authorities at all levels, as well as civil society, ethnic and religious groups and local communities to facilitate dialogue on the ground, while EUAM Ukraine aims to assist the Ukrainian authorities towards a sustainable reform of the civilian security sector through strategic advice and practical support.

Finland's Minister for Foreign Trade and Development visited Ukraine in 2016. During the visit, the Ukrainian authorities presented their willingness to cooperate with Finland in the fields of education and energy efficiency. In consequence, these were selected to be the main areas of cooperation. Finland will also support the Council of Europe Action Plan for Ukraine to facilitate structural reforms and help Ukraine to fulfil its legal responsibilities as a member of the Council of Europe.

In connection with President Poroshenko's visit to Finland in 2017, a memorandum of understanding (MoU) on cooperation in the field of energy efficiency and use of renewable energy was signed between Ukraine and Finland. In consequence, Finland established a trust-fund of EUR 6 million in

Nefco to support the objectives of the MoU. The Ukrainian partner of the fund is the Ukrainian State Agency on Energy Efficiency and Energy Savings (SAEE).

In the field of education, Finland supports Ukraine's school reform through a project of EUR 6 million entitled "Finland's Support to the Ukrainian School Reform". The project is implemented by the FCG International in partnership with the University of Helsinki, and project activities in Ukraine commenced in August 2018. The EU will channel EUR 2 million for the project "National Language Teaching for Minorities" through Finland's indirect management, and this activity will be amalgamated with Finland's bilateral project during the six-month inception period. Finland will also participate in the EU-led vocational education training reform project in Ukraine.

Two Finnish CSOs receive financial support from the Ministry for Foreign Affairs for their development cooperation projects in Ukraine in 2018. CMI (Crisis Management Initiative) plays a role in crisis mediation in Ukraine, and the Abilis Foundation supports disabled peoples' organizations and people with disabilities in Ukraine.

In addition, the Embassy of Finland in Kyiv annually allocates approximately EUR 100,000 in local cooperation funds for Ukrainian non-governmental organizations at the local level. The priority areas have been human rights and equality, especially women and vulnerable people, and democracy and good governance



## 5) Expected Results of the Development Cooperation Programme

The impact areas for the development cooperation programme are derived from the *Medium Term Action Plan (MTAP) until 2020* and the *Priority Action Plan* of Ukraine.

The first impact area for Finland's cooperation in Ukraine is **Ukrainian basic and vocational education are reformed to meet European standards and the education system is appreciated by citizens**. The Ukrainian education system was inherited from the Soviet era. As part of the MTAP 2020, Ukraine will reform the country's general and vocational education system to meet European standards. The general education reform will be guided by the "New Ukrainian School" policy and law on education adopted in 2017. One of the most sensitive issues in the law on education has been the status of minority languages. The government has requested the EU to finance the preparation of a Roadmap for the implementation of article 7 (Language of Education) of the law. The EU has allocated EUR 2 million for this purpose, and has decided to implement this support in indirect management with Finland. The vocational education and training system of Ukraine has almost collapsed since the Soviet era, and the creation of a new system will be developed with the major donor contribution starting in 2019. This impact area will be measured by public sector perception of education and teacher job satisfaction studies such as the OECD Teaching and Learning Survey.

The first expected outcome under this impact area is the **modernization of Ukrainian education and improved teaching and learning in accordance with 21<sup>st</sup> century requirements**. This outcome is measured by the following: the number of new curricula taken into use; the variety of professional modalities adopted; and widespread increased awareness of educational reform among the general public and the education community, monitored through project reporting. The three outputs of this outcome area are **Support for the preparation of primary level teachers, support in raising awareness of the education reform, and support for the development and use of**



**an e-platform and educational material development.** All these are measured by the indicators obtained from the project reports.

The second expected outcome under this Impact area is **the Vocational Education Training (VET) system in Ukraine has been reformed and modernized so that it can better contribute to sustainable and inclusive socio-economic development.** This outcome is measured by different employment statistics. The first output of this outcome is **a relevant and credible sector strategy has been adopted, and effective VET governance and funding system has been established.** This output is measured by MoES (Ministry of Education and Science) and MoEDT (Ministry of Economic Development and Trade) statistics. The second expected output is **the quality and attractiveness of VET for both female and male learners has been improved, and its relevance to labour market needs has been increased.** This output is measured by MoES and project reports.

The third expected outcome under this impact area is **Ukrainian citizens regardless of native language have access to quality national language education and can fulfil their constitutional rights in Ukraine with regard to access both to higher education and to the labour market.** This outcome is measured by the Venice Commission report. The output under this outcome is **a methodology for learning the Ukrainian language for non-native speakers for all grades, and for grades 5–11 concerning other subjects.** This output will be measured by the number of participants in advanced teacher training courses for Ukrainian language teachers and teachers of other subjects.

The inputs for this impact area are the project “Finland’s Support to the Ukrainian School Reform, EU4Skills for Modern Ukraine”, and the “Roadmap for implementation of Article 7 of the Ukrainian Law on Education” .

The second impact area for Finland’s development cooperation with Ukraine is **improved investor confidence in the Ukrainian energy sector.** This impact area is measured by state statistics regarding annual investments in renewable energy, energy efficiency, waste to energy, and smart energy systems. Finland and Ukraine signed a Memorandum of Understanding (MoU) in January 2017 that expressed interest in strengthening cooperation in the fields of energy efficiency, renewable energy,



waste to energy, and smart energy systems. In consequence, Finland has established a Trust Fund to finance this cooperation. The fund is managed and administered by the Nordic Environment Finance Corporation (NEFCO). SAE is the central executive authority responsible for the implementation of the Ukrainian state policy in the fields of energy efficiency, renewable energy sources, and alternative types of fuel.

The first expected outcome is **clean energy policies are ratified**, which will be measured by the number of ratified policies and laws coming under ratified policies. The first expected output is **consultation on policy design, technology and projects feasibility; the introduction of new technologies**, which will be measured by the number of policies that received expert support, the number of completed feasibility studies and technology reports, and the number of pilot projects designed and commissioned. The second expected outcome is the **establishment of a national funding instrument for renewable energy (Green Investment Fund)**, the indicator of which is an operational Green Investment Fund. An output in this regard is **development of the Green Investment Fund**, which is measured by the ratification of the fund by the end of 2019. The third expected outcome is **foreign direct investments (FDI) are unlocked**, which is measured by the amount of FDI for renewable energy and energy efficiency. Its output is **new partnerships with the private sector and/or financiers**, which is measured by the number of partnerships with the private sector and/or financiers. The input for this impact area is Finland's Ukraine Fund at NEFCO: Energy Efficiency, Renewable Energy and Alternative Type of Energy Sources.

The third impact area is **Ukrainian legislation, institutions and practice are better in line with European standards in the areas of human rights, the rule of law and democracy**. This is measured by: 1) the extent to which national legislation is in place and/or amended to be in line with European Human Rights Standards; 2) the extent to which the institutional mechanisms are in place and operational to provide effective protection against ill-treatment; and 3) the extent to which relevant professional groups know human rights standards and apply them in their work. The Council of Europe Action Plan for Ukraine 2018–2021 is an instrument aiming to help Ukraine in its efforts to bring legislation, institutions, and practice more in line with European standards in the areas of human rights, the rule of law, and democracy in order to meet its obligations as a member state of the Council of Europe.

The first expected outcome under this impact area is the **European Convention on Human Rights (ECHR) system has been strengthened at national level, and the Ombudsperson as well as the National Preventive Mechanism (NPM) function effectively**. This is measured by the capacity of the judiciary, prosecution service, law enforcement, the military and the Ombudsperson to implement the ECHR. The first expected output is that **the capacities of the Ombudsperson institution have been reinforced to monitor and report on human rights violations**, which is measured by the scope of the Ombudsperson's work and the quality of reporting. The second output is that **the functioning of NPM has been strengthened in order to protect people deprived of their liberty**, which is measured by the capacity of the authorities to monitor and report on situations in different places of detention, their cooperation with civil society, and the functions of the NPM among the population.

The second outcome is that the **human rights legislative and regulatory framework is aligned with European standards and the elimination of all sorts of discrimination is ensured by national authorities**. These are measured by the degree to which the legal framework on the protection and promotion of minority rights conforms with European standards, by the level of knowledge about human rights standards, and by the extent of their application by law enforcement and military staff in their work. The first output is that **laws against all forms of violence against women and children are developed and implemented in line with European standards**, which is measured by the existence and implementation of the laws. The second output is that **a strategy to protect the human rights of Roma people has been adopted and implemented**, which will be measured by the existence and implementation of the strategy.

The third expected outcome is that **conditions of detention and healthcare in the penitentiary and psychiatric care are improved and a rehabilitative approach to offenders has been adopted**, which will be measured by the indicators, collected by institutions in the justice sector, that assess the advancement of the reform and report on their findings. The first expected output is an **enhanced capacity of law enforcement to address issues of ill-treatment and torture**, which is measured by the number of the cases addressed and solved. The second output is that **women have equal access to justice, including equal protection of their rights by state institutions**, which is measured by the number of cases addressed and solved.

## 6) Monitoring and Evaluation

Monitoring of this strategy is based on ongoing evaluations of development projects and programmes and the related political dialogue by the Ministry for Foreign Affairs, Unit for Eastern Europe and Central Asia – which covers Ukraine – in Helsinki and the Embassy of Finland in Kyiv. The strategy includes different implementation modalities that require different monitoring and evaluation methods.

“Finland’s Support to Ukrainian School Reform” is a bilateral project where monitoring is done through normal Steering Committee and Board arrangements. The evaluation will take place in 2020. It has been agreed that during the project’s inception phase, the EU-funded “Roadmap for implementation of Article 7 of the Ukrainian Law on Education” will be combined with the project “Finland’s Support to Ukrainian School Reform”. After the amalgamation, the two projects will follow the same monitoring and evaluation cycle.

EU4Skills is an EU project with German indirect management (GIZ & KfW), which will do the day-to-day technical and financial monitoring and reporting. The Steering Committee will be in charge of supervising the project. The composition of the Steering Committee will be decided later on. Detailed terms of reference/A detailed description that includes the management structure will be developed for each individual action. The Commission may undertake additional project monitoring, and it will bear the cost of final evaluation in 2023.

Finland’s Ukraine Trust Fund at NEFCO is administrated and managed by NEFCO. The Ministry for Foreign Affairs/Embassy of Kyiv participates in meetings of the Evaluation and Monitoring Committee as an observer and has the right to veto proposed activities. The evaluation will be organized by NEFCO in 2020.

With regard to the Council of Europe Action Plan for Ukraine, the Committee of Ministers of the Council of Europe is responsible, through its Group of Rapporteurs on Democracy (GR-DEM), for the overall assessment of implementation of the Action Plan. The Council of Europe will provide regular updates on the progress and outcomes of the Action Plan, based on the reports of the Office of the Director General of Programmes (ODGP). The ODGP will also distribute annual Action Plan Reports to donors contributing to the funding of the Plan. An Action Plan Steering Committee composed of Ukrainian stakeholders and representatives of the European Council will be established to assess the implementation of the projects, the challenges faced, and relevant measures to improve effectiveness of the Action Plan.

The evaluation of the programme covered by this strategy for development cooperation will be integrated in the Ministry wide country strategy evaluation process. The MFA ITÄ-20 development cooperation team will monitor the validity of the assumptions made in this strategy and its logic model (Annex I) as well as the risks identified, and take corrective measures as needed. The use of budgeted funds is monitored on an ongoing basis using reports from the MFA financial accounting systems. The team will prepare an annual report following the MFA reporting format and instructions for each calendar year. The annual report provides an overview of strategy monitoring and reporting. The need for any corrective measures will be determined by the Department for Russia, Eastern Europe and Central Asia.

## 7) Risk Management

### **Contextual risks**

Societal or political unrest is possible in Ukraine (outside the conflict area), especially in connection with the upcoming elections. The conflict is continuing, and the general public is frustrated with the depth and speed of the reforms. The effects of the possible unrest, however, are modest because the general expectation is acceleration and deepening of the reforms supported by development cooperation efforts.

The reform process has already slowed down and might not be picked up before the elections in 2019. The implementation of reform-oriented development cooperation projects helps to realize the reforms.

### **Programmatic risks**

Ukraine is undergoing a thorough and very complex reform process in the midst of a conflict. This will have a heavy impact on implementation of the development cooperation projects since managing complicated transformation processes will require more capabilities from the Ukrainian authorities. This risk can best be mitigated by careful planning, by participatory working methods during the implementation, and by active coordination.

Large-scale development cooperation is quite new in Ukraine and the government structures for aid coordination are weak. Underdeveloped coordination mechanisms have a strong impact on aid effectiveness and should be mitigated by the development of national coordination mechanisms and joint activities with international partners that already have smoothly functioning coordination processes.

Deeply rooted structural corruption is a major problem in Ukraine. Poorly financed institutions, low salaried individuals and those sticking to vested interests are prone to poor governance, misappropriation of funds and corruption. All of these consume a great deal of human resources, cause loss of funding, and may lead to the suspension of cooperation. Finland is trying to mitigate the risk by implementing the aid programme through well-established, strong institutions.

### **Institutional risks**

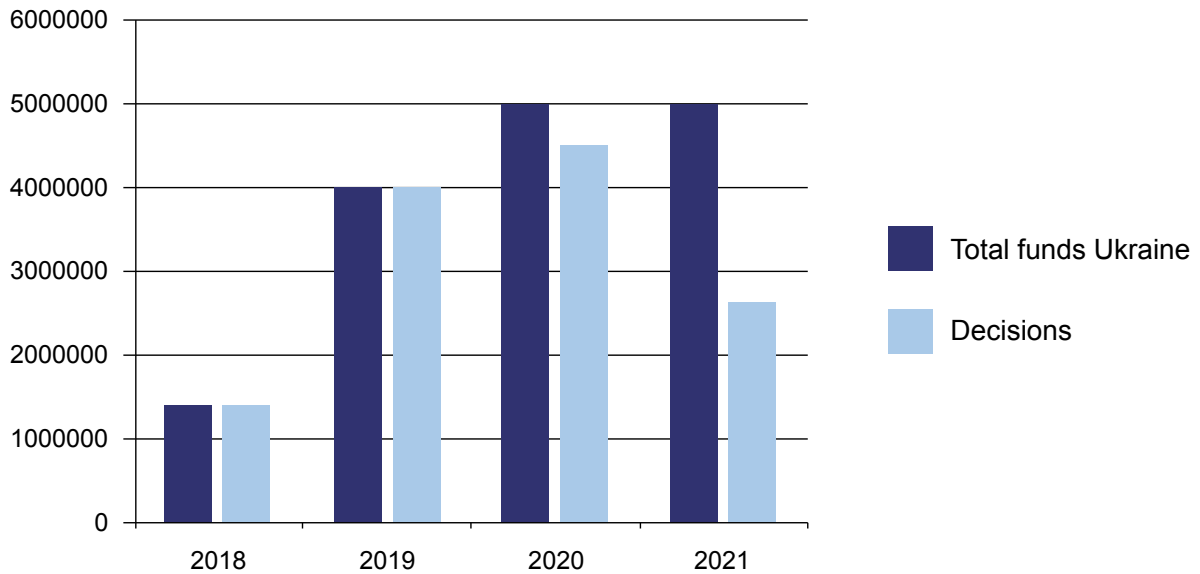
Both commitment to human rights related issues and the capacity to advance these issues are limited. The human rights based approach in development cooperation is new to Ukrainian stakeholders. In some cases, analyses of possible human rights effects must be part of the project preparation. During project implementation, the human rights effects must be monitored and the project activities adjusted, if this is found to be necessary.

The Ukrainian State capture by rich oligarchs who 'own' the politicians and do business as they wish has often been severely criticized in the Finnish media. There is a reputational risk that the general public in Finland does not approve of support for a corrupt and oligarch-driven economy. Despite the criticism, Ukraine's need for foreign assistance to implement deep and thorough reforms in order to eliminate the oligarch system is understood, and the best way to mitigate the risk is to be active in disseminating information on the objectives and activities of the Finnish development cooperation programme in Ukraine.



## 8) Tentative Financing Plan (Budget)

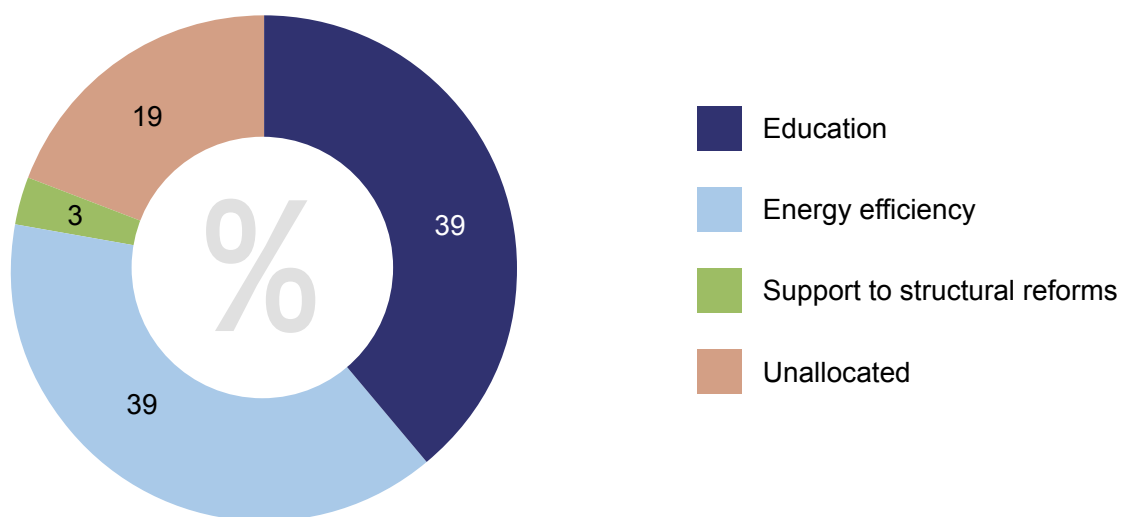
**Budget framework 2018–2022 (€)**







### Planned budget allocation 2018–2021 (Total funds 15 397 000€)



# Annex I: Logic Model

## Strategy for development cooperation in Ukraine 2018–2022

IMPACT	OUTCOME	OUTPUT	Key assumptions linking outputs/ outcomes/impacts	Instruments and Inputs
<p><b>Impact 1:</b></p> <p>Basic and vocational education in Ukraine is reformed to meet European standards and the education system is appreciated by citizens.</p>	<p><b>Outcome 1.1.</b></p> <p>Modernization of the Ukrainian education and improvement of teaching and learning in accordance with 21st century requirements</p>	<p><b>Output 1.1.1.</b></p> <p><b>Teacher Preparation</b> Support for the preparation of primary level teachers (grades 1–4) to implement the new competence-based curricula, and support for developing professional development support systems</p> <p><b>Output 1.1.2.</b></p> <p><b>Education promotion</b> Support for raising awareness of the education reform and changing perceptions of education.</p>	<p><b>Outcomes/Impact</b></p> <p>Political commitment to the reforms</p> <p>Related policy and legal reforms take place as planned</p> <p>Sufficient resources are available to maintain and develop the education sector further</p> <p><b>Outputs/Outcome</b></p> <p>The willingness and readiness of teachers and teacher training institutes to participate</p>	<p><b>Inputs for outputs 1.1.1.–1.1.3.:</b></p> <p>Finland's support to the Ukrainian School Reform project, EUR 6 million in 2018–2022.</p>



IMPACT	OUTCOME	OUTPUT	Key assumptions linking outputs/ outcomes/impacts	Instruments and Inputs
		<b>Output 1.1.3.</b> <b>New education environment</b> Support for the development and use of an e-platform and for the development of educational material	Professional standards for teachers are successfully included in education promotion activities  Public media are interested in education promotion  The Ministry of Education and Science (MoES) has sufficient human resources  Readiness to carry out the PISA assessment  The interest and willingness of teacher training institutes to participate, the interest of material developers  Teachers and schools have technical capacities to produce and upload material	

IMPACT	OUTCOME	OUTPUT	Key assumptions linking outputs/ outcomes/impacts	Instruments and Inputs
	<p><b>Outcome 1.2.</b></p> <p>The Vocational Education Training (VET) system in Ukraine has been reformed and modernized so that it can better contribute to sustainable and inclusive socio-economic development.</p>	<p><b>Output 1.2.1.</b></p> <p>A relevant and credible sector strategy has been adopted and effective VET governance and funding systems have been established.</p> <p><b>Output 1.2.2.</b></p> <p>The quality and attractiveness of VET for both female and male learners has been improved and its relevance to the labour market needs has been increased.</p> <p><b>Output 1.3.1.</b></p> <p>Methodology for all grades for learning Ukrainian as a language for non-native speakers in all grades and for grades 5–11 with regard to other subjects.</p>	<p><b>Output/Outcome</b></p> <p>The VET Vision is developed and endorsed by the Government of Ukraine.</p> <p>The Government of Ukraine remains committed to support the modernization of VET.</p> <p>Ownership of the VET school premises is transferred from the national to the regional level.</p> <p><b>Output/Outcome</b></p> <p>The Law on Professional (Vocational) Education is approved during the expected time frame (2018–2020).</p>	<p><b>Inputs for outputs 1.2.1. and 1.2.2.:</b></p> <p>EU4Skills: Better Skills for Modern Ukraine 2019–2022. EU, EUR 38 million; Germany, EUR 12 million; Finland, EUR 2 million; Poland, EUR 1 million</p>



IMPACT	OUTCOME	OUTPUT	Key assumptions linking outputs/ outcomes/impacts	Instruments and Inputs
	<p><b>Outcome 1.3.</b></p> <p>Ukrainian citizens regardless of native language have access to quality national language education and can fulfil their constitutional rights in Ukraine as concerns both access to higher education and on the labour market.</p>		<p>The VET reform is properly communicated to stakeholders at all levels and to the general public.</p> <p><b>Output/Outcome</b></p> <p>The Government of Ukraine remains committed to satisfying the opinion of the Venice Commission regarding article 7 of the Ukrainian law of education.</p> <p>Teachers are willing to participate and teacher training institutions are willing to organize the training.</p>	<p><b>Input to outputs 1.3.1. and 1.3.2.:</b></p> <p>Roadmap for implementation of article 7, 'Language of Education', of the law of Ukraine 'On Education'. EU funding, EUR 2 million in 2019–2022, implemented in indirect management with the Ministry for Foreign Affairs of Finland.</p>

IMPACT	OUTCOME	OUTPUT	Key assumptions linking outputs/ outcomes/impacts	Instruments and Inputs
<b>Impact 2:</b>  Improved investor confidence in the Ukrainian energy sector	<b>Outcome 2.1.</b>  Clean energy policies ratified  <b>Outcome 2.2.</b>  A national funding instrument for renewable energy (Green Investment Fund)  <b>Outcome 2.3.</b>  FDI investment is unlocked	<b>Output 2.1.1.</b>  Consultation on policy design, technology and project feasibility; new technology introduced  <b>Output 2.2.1.</b>  Development of the Green Investment Fund.  <b>Output 2.3.1.</b>  New partnerships with the private sector and/ or financiers	<b>Outcomes/Impact</b>  Political stability  Economic stability  Reforms in several sectors are implemented effectively  <b>Output/Outcome</b>  Relevant topics are identified  Matching need and technology  No delays in legislation  Efficient collaboration  Political and economic stability  Investor confidence  The availability of credit lines and reforms	<b>Inputs for output 2.1.1.–2.1.3.:</b>  Finland's Ukraine Trust Fund at NEFCO: Energy Efficiency, Renewable Energy and Alternative Type of Energy Sources, EUR 6 million for 2018–2021



IMPACT	OUTCOME	OUTPUT	Key assumptions linking outputs/ outcomes/impacts	Instruments and Inputs
<p><b>Impact 3:</b></p> <p>Ukrainian legislation, institutions and practice are better in line with European standards in the areas of human rights, the rule of law and democracy.</p>	<p><b>Outcome 3.1.</b></p> <p>The European Convention on Human Rights (ECHR) system has been strengthened at national level and the Ombudsperson as well as the National Preventive Mechanism function effectively.</p> <p><b>Outcome 3.2.</b></p> <p>Human rights legislative and regulatory frameworks are aligned with European standards and national authorities ensure the elimination of all sorts of discrimination.</p>	<p><b>Output 3.1.1.</b></p> <p>The capacities of the Ombudsperson institution to monitor and report on human rights violations have been reinforced.</p> <p><b>Output 3.1.2.</b></p> <p>The functioning of the National Preventive Mechanism (NPM) has been strengthened to protect people deprived of their liberty.</p> <p><b>Output 3.2.1.</b></p> <p>Laws against all forms of violence against women and children are developed and implemented in line with European standards.</p> <p><b>Output 3.2.2.</b></p> <p>A strategy to protect the human rights of Roma people has been adopted and implemented.</p>	<p><b>Outcomes-Impact</b></p> <p>Consensus on reforms is established across a wide political spectrum.</p> <p>Reforms and existing legislation are implemented effectively and are supported by the population.</p> <p><b>Output-Outcome</b></p> <p>The Ombudsperson institution receives adequate funding.</p> <p>Effective coordination between the authorities, the Ombudsperson and civil society is possible.</p>	<p><b>Inputs for outputs 3.1.1.–3.3.2.:</b></p> <p>Council of Europe Action Plan for Ukraine 2018–2021, Total budget EUR 29.5 million, Finnish contribution EUR 0.5 million</p>

IMPACT	OUTCOME	OUTPUT	Key assumptions linking outputs/ outcomes/impacts	Instruments and Inputs
	<p><b>Outcome 3.3.</b></p> <p>Conditions of detention, and healthcare in the penitentiary and psychiatric care are improved and a rehabilitative approach to offenders has been adopted.</p>	<p><b>Output 3.3.1.</b></p> <p>The capacity of law enforcement to address issues of ill-treatment and torture has been enhanced.</p> <p><b>Output 3.3.2.</b></p> <p>Women have equal access to justice, including equal protection of their rights by state institutions.</p>	<p><b>Outcome/Impact</b></p> <p>The Government is fully committed to the reform.</p> <p>The reformed and rehabilitative justice system increases the general public's trust in law enforcement</p> <p><b>Outputs/Outcome</b></p> <p>The promoted rehabilitative approach is accepted and adopted by professional groups and the general public.</p>	







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