



**MILLENNIUM
CHALLENGE
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

We wish to provide a courtesy notification that the Millennium Challenge Corporation's Board of Directors has approved Threshold Program assistance for Ukraine of up to \$48,117,900 in FY 2006 MCC program funds. Of this amount, up to \$44,970,000 will be available for the Ukraine program and up to \$3,147,900 will be made available to USAID for administrative expenses associated with the Threshold Program.

MCC's Threshold Program is designed to assist Millennium Challenge Account (MCA) candidate countries that are committed to undertaking the reforms necessary to improve their policy performance and potentially qualify as countries eligible for MCA Compact assistance.

The attached summary outlines Ukraine's program. Members of MCC's staff are available to meet with you to discuss the planned program. If you or your staff would like to arrange a meeting, please contact Jake Stefanik at (202) 521-3856. The attached summary is being sent to the Congress on June 27, 2006.

Sincerely,

Frances C. McNaught
Vice President
Congressional and Public Affairs

Enclosure:
As stated

Threshold Program Summary

Country: Ukraine
Budget: \$48,117,900
Fiscal Year Funding: 2006
Estimated Program Duration: 2 years

Indicator Focus: Control of Corruption

Principal Objective: Reduce corruption in the public sector through strengthening civil society's monitoring and exposure of corruption, judicial reform, increased government monitoring and enforcement of ethical and administrative standards, streamlining and enforcing regulations and combating corruption in higher education.

Background:

President Yushchenko was elected on an anti-corruption platform and has made some reforms since his election in such areas as the police force, customs service, and tax administration. However, much remains to be done. International organizations and experts have repeatedly highlighted the targeted areas as significantly contributing to corruption in Ukraine, constraining economic investment and growth and limiting access to fair and equal opportunity and justice for the Ukrainian people. Initial steps for introducing reform in these four areas have already been taken – including passage of the Concept of Judicial Reform, deregulation at the national and oblast levels, and passage and initial implementation of the Permit System Law. The Ukraine Threshold Program is an aggressive, multifaceted program that will build upon lessons learned and initiate necessary steps to invigorate ongoing efforts to attack public sector corruption.

Of the \$48,117,900, up to \$44,970,000 will be available for the program and up to \$3,147,900 will be made available to USAID for administrative expenses associated with the Threshold Program.

Program Components – Objectives and Proposed Activities:

Component 1. Strengthen Civil Society's Monitoring and Exposure of Corruption:

Thousands of Ukrainian nongovernmental organizations (NGOs) actively represent the interests of their constituencies, promote public policies, monitor government performance, and successfully advocate for reforms. Furthermore, the mass media enjoy fundamental press freedoms and offer the public a range of sources of professional news and information. Despite the substantial progress of recent years, Ukrainian civil society and media are not meeting their full potential as effective monitors of government and advocates for reform.

Objective: Reduce opportunities for corruption by enabling civil society to be more effective monitors of government and advocates for reform.

Proposed Activities:

- A. Design, conduct and publicize surveys to provide a more detailed, targeted, and timely measure of the Government of Ukraine's anti-corruption efforts.
- B. Implement a grants program to support the work of NGOs that monitor government performance and/or advocate for improvements in higher education, asset declaration, the judicial system, customs, government procurement, land and property ownership, the permit systems for construction, land use, municipal services or other areas where corruption issues emerge.
- C. Improve investigative journalism, improve access to information by journalists and NGOs and strengthen other media anti-corruption efforts through training and capacity building in order to increase exposure of corruption by the media, increase the number of anti-corruption investigations and increase sanctions for corruption as a result of media reports.

Component 2. Judicial Reform: Critical to efforts to fight corruption is increasing the level of transparency in the delivery of justice by introducing permanent improvements in key legislative, procedural and institutional arrangements. The proposed activities will also contribute to fostering a more professional cadre of administrative judges, court personnel, and notaries.

Objective: Increase transparency in the judicial sector.

Proposed Activities

- A. Establish a unified registry of court decisions and implement computerized random case assignment by administrative personnel.
- B. Implement an effective, transparent and competitive process of judicial appointment and an adequate and transparent disciplinary procedures for judges.
- C. Improve the system of enforcing judicial decisions based on international best practices.
- D. Train administrative judges and establish an electronic network for administrative courts.
- E. Eliminate corruption opportunities in the notary system by improving the legal and regulatory framework for regulation of notaries.

Component 3. Government Monitoring and Enforcement of Ethical and Administrative Standards: Currently Ukraine has no general conflict of interest legislation for government officials except for certain provisions that limit business opportunities for family members of officials. Additionally, although there are requirements that candidates for public office and civil servants declare their assets, the methodology has flaws and omissions, and submitted declarations are rarely checked and even more rarely are sanctions imposed for falsification.

Objective: Create systems to strengthen accountability among government officials and enable the Government of Ukraine to better monitor and enforce ethical and administrative standards.

Proposed Activities

- A. Introduce transparency and accountability in government agencies through the establishment of Internal Investigation Units and adoption of conflict of interest

legislation and ethics standards for government officials consistent with international best practices.

- B. Improve the system for government declaration of assets and monitoring of expenses.

Component 4. Streamlining and Enforcing Regulations: Complicated, confusing and overlapping systems providing construction permits, delivery of municipal services, land and property ownership and usage are sources of significant corruption. Both private individuals and legal entities must complete an enormous number of steps to start any construction activity. The processes are neither transparent, nor defined in time, and there is clear evidence of corruption at all steps.

Objective: Change the legislative and regulatory framework for property transactions, reform the permit system, and streamline lines of responsibilities and procedures in order to reduce corruption in these areas.

Proposed Activities

- A. Implement regulatory reform in transborder transportation and create a single integrated database for cross-border shipments to effectively eliminate the opportunity to either enter false data or change data, reducing the opportunity for bribery for such services and significantly reducing shadow shipments.
- B. Introduce a one-stop shop approach to obtaining construction permits, municipal services and inspections.
- C. Streamline land usage and property ownership rights and consolidate all soil and water environmental protection functions in one government agency – the Ministry of Environment.

Component 5. Combating Corruption in Higher Education: Recognizing the importance of reducing corruption within the educational system, a national testing center, the Ukrainian Center of Evaluation of Education (UCEE), has been established. Assistance is required, however, to fully implement the external testing system as well as to ensure its integrity.

Objective: Reduce corruption in higher education by establishing a legal framework requiring a minimum test score for admission to universities; developing a functioning security system for test results; and ensuring that 100 percent of students are tested and the test centers are fully operational.

Proposed Activities:

- A. Assist the UCEE in drafting and ensuring passage of legislation to codify requirements for university entry that will be based on the results of external testing, address the issues of sustainable funding of this system, and responsibilities for violations and sanctions.
- B. Assist the UCEE in developing a system of ensuring security of the process of external testing.
- C. Procure the necessary equipment for full operation of nine regional testing centers, including printing equipment for confidential printing, packaging and scanning equipment.

Highlights of Expected Results:

1. Reduce the perceived level of corruption in all areas by 10 percent.
2. Reduce experiential corruption in all areas by 20 percent.
3. 30 percent of NGO advocacy campaigns result in government reforms.
4. Reduce the number of cases brought to the European Court of Justice by 30 percent.
5. Increase the number of notary violation findings that result in sanctions or prosecutions by 30 percent.
6. Increase compliance with procedures in ministries with an Internal Investigative Unit (target to be determined upon establishment of the Internal Investigative Unit).
7. Reduce the number of users who indicate that they made unofficial payments in areas of customs, transportation, construction, land ownership, land usage, and municipal services by 20 percent.
8. Increase to 100 percent the percentage of students tested for university admission.

The Government of Ukraine will also use additional indicators on corruption drawn from MCC's "Control of Corruption" indicator to measure program effectiveness.

Implementing Partners: The United States Agency for International Development, the Department of Justice, the Department of State and the United States Embassy in Kiev will play key roles in implementation of the program. Total funding for USAID administrative expenses may be adjusted if other agencies assume administrative roles in implementing the program.