

**Macroeconomics**

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**INTERNATIONAL ASSISTANCE  
FOR POVERTY ERADICATION:  
THEORETICAL ASPECTS, WORLD  
AND NATIONAL PRACTICE**

**Abstract**

Poverty eradication is declared in The Millennium Declaration as the global goal to be reached by all mankind, not separate countries facing that problem. Among the wide range of mechanisms aimed at raising population's welfare and reducing the inequality gap, international economic assistance holds a weighty position, especially in those countries whose socio-economic situation does not make it possible to find sufficient internal resources to fight certain aspects of poverty. The authors believe that the development of the recipient country's poverty eradication strategy and the donor country's assistance strategy should be coordinated with consideration for the effectiveness criteria based on the theoretical approaches advanced by the leading experts in the poverty issues and the world practice.

**Key words:**

Aid effectiveness (quality) criteria, assistance strategy, bilateral, multilateral and collective development assistance, donor countries and recipient countries, financial aid and technical support, Millennium Goals.

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## Introduction

Numerous studies, especially those carried out by experts of the World Bank and the OECD prove that the main objective of the Millennium Goals – to half the number of people living beyond the poverty line (which is less than one dollar a day) – will be reached by 2015 (except for the countries located to the South from Sahara) [1]. In addition to reduction of income inequality as the main impediment to receiving maximal effect from economic growth – an important instrument of poverty eradication, the prerequisites for realization of this optimistic scenario are the following: high level of economic freedom (from the principles of government creation to monetary and trade policy); availability and effective use of capital (financial and human); higher productivity of agricultural sector compared to «modern» sectors (for reduction of the negative effect of economic dualism); institutional openness of the economy (given that global trade environment transforms for the benefit of poor countries).

Since most of the countries with high poverty cannot meet the above objectives with their own strengths, the role of international assistance aimed at overcoming marginalization of the world is growing in urgency.

The theoretical investigations of the leading experts in poverty issues (in particular, international poverty eradication mechanisms) represented by M. Todaro, P. O'Neill, J. Wolfensohn, A. Lerrick, H. Birdsall, F. Bourguignon, W. Kleine, E. Rummyantseva, O. Shyshkov, S. Hutsalo, and others, as well as the analysis of the world practice prove that modern international economic aid should be essentially reformed – from changes in its directions to improvement of its realization mechanisms. Unfortunately, Ukraine belongs to countries that aspire to receive foreign aid, but at the same time have not yet developed proper methodological and institutional principles for its rational integration into the system of mechanisms for realization of the national poverty eradication strategy. Proceeding from the above-said, we can single out *two directions* of scientific research in the area of international economic assistance urgent for Ukraine. These are, *first*, the identification of its essential characteristics and criteria of its quality and place in the system of poverty eradication mechanisms (including those based on the study of foreign experience), and *second*, the evaluation of the effectiveness of bilateral and multilateral aid for poverty eradication in our country and elaboration of the recommendations on increasing its effectiveness taking account of the new tendencies in the transformation of theoretical and practical approaches to allocating and using foreign assistance. The aforesaid determines the **goal and objective** of this paper revealed in the titles of its sections.

## **1. Methodological Approaches to Definition of the Essence of International Economic Assistance and Its Classification**

National and foreign scientists, in particular, T. Subotina, S. Brown, I. Owerland, M. Todaro, O. Rohach, and others mostly recognize two forms of foreign aid to developing countries: *official development aid (official development assistance) and private flows* [2: 73; 3: 74; 4: 8; 5: 67–69; 6: 500; 7: 448–449; 8: 70–100].

The official development assistance (ODA) should meet, in the opinion of mentioned experts, certain requirements, namely: 1) originate from official sources and official foreign donors; 2) be granted to poor countries with the purpose of supporting their socio-economic development; 3) be treated by donors as non-commercial transfer and offer concessional terms (Grant Element as an indicator of concessional level should equal no less than 25% of allotted funds).

Depending on the number of parties to international relations, the ODA is provided on the bilateral, multilateral, and collective basis. The main source and channel of bilateral overseas aid is individual countries represented by authorized institutions that manage the mechanism of aid channelling. The main source of multilateral aid is the funds of international organizations collected as contributions from participant countries. Collective aid is provided to recipient countries by donors who create by means of their contributions a mutual relief fund and its management bodies. All these three forms of aid could be called the international development aid, which is further classified by the scientists into financial, technical, food, humanitarian, and military aid.

The most methodologically feasible and efficient in the context of poverty eradication, in our opinion, are the financial aid and technical support since these are the instruments that can not only settle the problems of poor countries in the short-term, but also create conditions for growth of welfare in the long-term perspective.

*Financial aid* is allocated in the form of loans (including loans on concessional terms), financial subsidies, subventions, export credits, grants, and guarantees and is mostly used to finance projects on economic development of the recipient country, as well as to solve the poverty issue. The bounds of financial aid provide for realizing the programmes on budget (commodity) aid, balance-of-payments equilibrium, and structural and industry crediting, etc.

As an especially equivocal type of bilateral financial aid considered is the so called «*tied aid*» (providing of concessional export credits (loans) or grants with the aim of importing goods (services) from the donor countries or implementing a certain project (developing certain economic sphere) alongside with imports) [2; 6; 8; 9; 10]. Obviously, the terms accompanying this type of aid are

far not always the most urgent and wanted by the recipient as they mostly motivate the donor country (by providing incentives to its producers and enabling them to sell their goods (services) at higher-than-world prices). Nevertheless, this type of aid has its advocates, since it adds to the reputation of the donor country and keeps the recipient from misusing the funds<sup>1</sup>.

*Technical support* (or «*technical cooperation*») has been allocated since the times of the Marshall Plan realization, and presently it is of great importance. If the purpose of financial aid is partial or full compensation of the lack of domestic resources of the recipient country due to insufficient savings and shortage of foreign currency (the «*two constraints*» model), technical cooperation was designed to complement and raise the level of both technical and administrative knowledge, production skills and personnel qualifications necessary for socio-economic development (including poverty eradication) of the recipient countries [3: 28–90].

Unlike financial aid, technical support is provided in the form of consultations, seminars, studies, specialized courses, training and retraining of personnel in the recipient country or abroad, exchange of specialists, training of students and granting them scholarships abroad, transfer of intellectual property rights, providing equipment facilities, advanced technology, computer technology, electronic accounting and management systems, and expert training to increase labour and capital productivity.

Depending on the level of recipient's participation in the technical support programmes, the latter are traditionally divided into the following types: *technological grants* (the so-called «independent technical cooperation»), whereby donors transfer technologies, equipment, training and retraining of specialists, high-technology products, or financial resources for purchasing of technology, equipment, training and retraining of specialists (personnel) free of charge (as a gift), whereas the recipient country is only required to meet the organizational conditions of its receiving and placement; *co-financing of technical facilitation* (the so-called «*investment technical cooperation*»), whereby the recipient country, in addition to settling organizational questions related to granted technical support, finances a certain part of the international technical support programme (project), even though this part constitutes a small share of the project value [11; 3: 28–29, 90–92; 8: 70–100]. The very essence of co-financing implies higher effectiveness of this type of technical support compared to grants since project (programme or strategy) outcomes largely depend on the recipient's participation in this process.

ODA, including financial assistance and technical support, also includes *project assistance*, which is rendered mostly by international organizations and collective donors as credit guarantees in specified volumes on condition that the recipient country meets its responsibilities and uses the grants to speed up pro-

<sup>1</sup> The recipients' misuse of (primarily official) funds is one of the main reasons for the «donor fatigue» phenomenon, i. e. the situation when the donors reduce or cease the providing of aid, having become disappointed in the effectiveness of its utilization.

ject implementation. In addition, project assistance includes non-project aid, which is most often provided on the bilateral basis as soft export loans and grants for the support of state reforms in the recipient country, as well as for the promotion of non-credit instruments (i. e. consultations, research, discussion of the recipient's socio-development strategy, etc) (see S. Brown [3], M. Gillis and D. Perkins [8], and others).

For a long time have the scientists been elaborating on the feasibility of treating private financing of poor countries as a type of international economic aid. M. Todaro considers that the latter does not cover all capital flowing into developing countries, especially with respect to resources of private foreign investors. In his opinion, the funds from private sources are mostly granted on commercial terms (the donor's main and official motive is to receive high return on invested capital) and hence cannot be considered as a type of assistance even if the recipient country benefits from them [6: 500]. On the contrary, S. Brown argues that private aid plays no lesser role than official development assistance because private capital inflows give poor countries advanced technologies, develop managerial and marketing skills and ensure easier access to export markets [3: 96]. Moreover, private aid usually escapes excessive bureaucratic barriers, it is more flexible both in targeting and volume, and its use is easily controlled. T. Subotina asserts that favourable investment climate (business environment) (which is not typical of the poor countries) and satisfying perspectives for economic growth are the preconditions for private capital inflows, and not vice versa [2: 73], which corroborates our own opinion that it is not feasible to interpret direct and portfolio investments as a type of international assistance. However, different types of aid from private funds and individual philanthropists could effectively complement official development assistance.

## **2. World Experience of Granting and Using International Economic Aid and Reformation of Its Mechanism**

The analysis of the world practice of using international aid as a mechanism for poverty eradication allows ascertaining that practically all types of economic assistance have their advantages and disadvantages.

The most extensive and successful, in the opinion of most experts (see [3; 12; 13]), example of bilateral aid was the Marshall Plan developed half a century ago. Its realization (even under dominating US interests) enabled the transfer of capital in cash and in kind from the rich to then poor countries for mutual benefit. In addition, it brought to appearance of the new plans of bilateral assistance provided by other countries (or their alliances) and gave impetus to creation of various organizations in the sphere of providing help to poor countries. It is worth to mention the following advantages of the plan: timeliness of provided assistance;

«tolerance» on the part of the USA, implying that it avoided to dictate the terms of granting aid and to intervene into internal affairs of the recipient countries directly in order to preserve their further cooperation and reach such mutually important goals as liberalization of the European trade; convertibility of European currencies; market integration; creation of supranational institutions; sufficient volume of resources; consideration for the whole range of problems in the countries of Western Europe and attempting to activate internal resources of the recipient countries to bolster their economic development; democracy building and development of market economy; mutual benefit for both parties; coordinated action at implementing the plan – the initiatives of the recipient countries were instrumental for the development of [clear, transparent, goal-oriented, and legally substantiated] national strategies stipulated by the Plan; sharing of responsibilities and control thanks to adequate institutional support (setting a special budgetary account allowed to control the use of the foreign financial aid, avoid «decumulation» of the aid and stabilize foreign debts in order to minimize dependence on the donor).

However, bilateral aid has been and still is not always provided (as asserted in particular by M. Todaro and S. Brown) to promote development of the recipient countries: 1) the individual interests of donor governments (primarily their wish to earn their own profits or benefit otherwise) in most cases prevail over the urgent needs of poor countries and often fail to consider all strategic interests of the latter; 2) bilateral aid is provided on very rigid terms tied to the recipient country's obligation to fulfil economic and social programmes designed by the donors; 3) the volumes of granted bilateral aid most often correspond with available resources rather than the goals of poverty eradication strategy in the recipient country [6: 502; 3: 84].

The majority of donor countries provide mainly «tied aid» yielding economic benefits. In particular, the Canadian International Development Agency (CIDA) – the basic source of Canadian aid – recovers nearly 70 cents of each dollar given to poor countries due to purchases of the Canadian products and services by the latter<sup>2</sup>. «Non-tied» CIDA assistance is granted based on the principle of geographical discrimination (no more than 50% of aid to the Sub-Saharan region and no more than 33.3% to other developing countries) [9: 30–31].

With the aim of raising funds for providing assistance to new poor countries formed of the former colonies, the industrially developed countries united into the Organization for European Economic Cooperation (OEEC) (later transformed into the Organization for Economic Cooperation and Development (OECD)). Under umbrella of OEEC was formed the Development Assistance Group (presently the Development Assistance Committee (DAC)): 0.7% of each DAC member's GDP should be contributed for the needs of «the third world» (Table 1).

<sup>2</sup> The CIDA allows developing countries to spend Canadian financing for purchasing food in other countries only in extraordinary situations. At that, the volume of such expenses should not exceed 10% of the Agency's annual budget, whereas the rest should be spent on purchasing exclusively Canadian-made foodstuff.

Table 1.

**Major Donors and Volumes of Official Development Aid (ODA)**

№	DAC donors	Distributed ODA						
		Total (US \$ mn)			as % of GDP			
		2001	2003	2005	1990	2001	2003	2005
1	USA	11429	16 254	27622	0.21	0.11	0.15	0,22
2	Japan	9847	8880	13147	0.31	0.23	0.20	0,28
3	Germany	4990	6784	10082	0.42	0.27	0.28	0,30
4	Great Britain	4579	6282	10767	0.27	0.32	0.34	0,47
5	France	4198	7253	10026	0.60	0.32	0.41	0,47
6	Netherlands	3172	3981	5115	0.92	0.82	0.80	0,82
7	Spain	1737	1961	3018	0.20	0.30	0.23	0,27
8	Sweden	1666	2400	3362	0.91	0.77	0.79	0,94
9	Denmark	1634	1748	2109	0.94	1.03	0.84	0,81
10	Italy	1627	2433	5091	0.31	0.15	0.17	0,29
11	Canada	1533	2031	3756	0.44	0.22	0.24	0,34
12	Norway	1346	2042	2786	1.17	0.80	0.92	0,94
13	Switzerland	908	1299	1767	0.32	0.34	0.39	0,44
14	Australia	873	1219	1680	0.34	0.25	0.25	0,25
15	Belgium	867	1853	1963	0.46	0.37	0.60	0,53
16	Austria	533	505	1573	0.11	0.29	0.20	0,52
17	Finland	389	558	902	0.65	0.32	0.35	0,46
18	Ireland	287	504	719	0.16	0.33	0.39	0,42
19	Portugal	268	320	377	0.24	0.25	0.22	0,21
20	Greece	202	362	384	–	0.17	0.21	0,17
21	Luxembourg	139	194	256	0.21	0.76	0.81	0,82
22	New Zealand	112	165	274	0.23	0.25	0.23	0,27
	<b>Total</b>	52 335	69 029	106 777	0.33	0.22	0.25	0.33

Source: <http://hdr.undp.org/reports>.

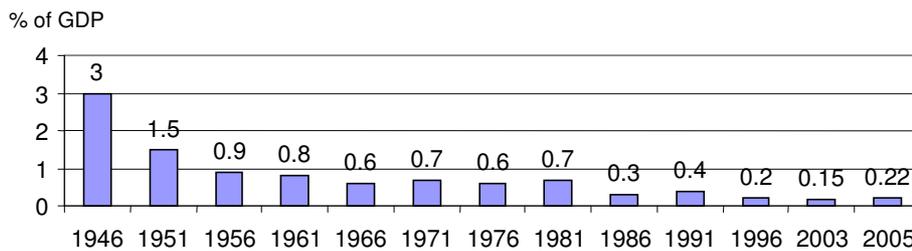
However, the ODA granted by collective bilateral donors has not always produced the expected results (increased fulfilment of human needs, such as education, health care, nutrition, etc in poor countries), which could be explained mainly by the unreadiness and/or unwillingness of recipient countries to steer the funds to poverty reduction. This has led to gradual shrinkage of the aid volumes (the above-mentioned «*donor fatigue*»): the USA reduced its aid from 3% (at the beginning of Marshall Plan realization) to 0.22 % of GDP in 2005 (see Table 1) and so did France, Great Britain and other industrial countries. Nevertheless, in 2005 the total volume of aid made 0.33% of aggregate GDP, which

somewhat exceeds the figures for 2001 and 2003, with 0.22% and 0.25% of GDP respectively, mainly on the account of the Scandinavian countries which came ahead of the plan<sup>3</sup> (see Table 1).

At the moment, the world's largest collective donor is the EU thanks to joining the contributions of Western European member countries (about 11% of world ODA and 5<sup>th</sup> place after the USA, Japan, Germany, and France).

Figure 1.

**Volumes of US official aid granted to developing countries**



Source: The Congressional Budget Office, December 2006.

The European Commission developed a set of practical recommendations on the increase in development financing, having set interim aid indicators (by 2010 the average aid indicator in all EU countries should make 0.56 % of GNP, in particular in «the old» EU members it should equal 0.51% of GNP and reach 0.7% by 2015; in the «new» EU members it should make 0.17% of GNP and reach 0.33% by 2015), and the improvement of aid quality [15: 15-58].

In our opinion, however, these optimistic forecasts are dubious, primarily because of the lack of effective EU monitoring over the targeted use of budget funds channelled to poor countries (according to the European Parliament, more than \$1bn are embezzled every year).

With due consideration for the significant role of bilateral aid (in spite of its mentioned problems and drawbacks), it should be acknowledged that it mainly reduces to financial, technical and military assistance to the developing coun-

<sup>3</sup> In spite of almost none historical relations with the countries of the third world, the Scandinavian countries in the 1960s became the pioneers in providing sizeable aid to those countries. Together with small European countries, primarily the Netherlands, they assumed the (incomparable to their size) burden of assisting poorly developed countries. In addition, these countries acted as initiators of fundamental reforms in this area of international economic policy [14: 164-197].

tries. The multilateral aid is far more versatile in form and theoretically grounded: 1) its providing by international organizations reflects much less the economic and political motives and individual interests of the donors; 2) there have been developed more rational schemes of providing aid and controlling its use, as well as effective instruments for reaching goals; 3) the aid is provided with much less intervention into the recipient's internal affairs; 4) the recipient country has the voting right (though much less weighty compared to rich countries) regarding the terms of allocating and using the aid, and hence, it finds it easier to agree to certain terms concerning political, economic and social reforms put forward by the international institutions where it participates as a member than to agree to requests of individual donor countries [3: 85–89; 6: 502].

The leading international institutions in the area of global poverty reduction are the World Bank Group and the International Monetary Fund (IMF). The specific policy of these organizations is that financial aid and technical support are mostly provided not for immediate settling of acute social problems, but for creation of the environment for public welfare growth in the long-term perspective by means of poor countries' own efforts (improving the investment climate, ensuring gender equality, structural reformation of the recipient country, liberalizing the monetary and foreign sectors, reducing the foreign debt, etc). The aid (primarily loans) is provided on condition of meeting a whole set of requirements (the so-called «conditional credits»), it often does not meet the ODA criteria<sup>4</sup>, and usually produces not static, but positive dynamic effects, which is the reason for much donor criticism, as already mentioned in the earlier works (see [16]). In particular, J. Stiglitz accentuates that multilateral aid provided by the international organizations, which he calls «missionary institutions», helps rich countries to exploit the poor ones – thanks to greater control, power and the voting right they have over the latter – and foist the ideas of free market on «backward» nations, which enhances the periphery character of certain countries and regions of the world [17: 31–32].

Using the Country Policy and Institutional Assessment index as a criterion of recipient selection enabled to reduce the number of credit terms, in particular those advanced by the IMF under its Poverty Reduction and Growth Facility (PRGF) [18: 12]. What concerns the World Bank, since 2004 it has been working on simplification and modernization of its lending principles and procedures in order to facilitate the process of client borrowings. At that, the Bank has considerably extended its operations in the mid-income countries with nearly 70% of the planet's residing poor populating, at the same time considerably curtailing and even suspending assistance to most underdeveloped countries with low PRGF index [19: 75]. The latter are attended by other donor organizations that aim their efforts at increasing the domestic demand and carrying out basic reforms, and study the innovation mechanisms of supplying social services.

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<sup>4</sup> 40–50% of the total volume of multilateral financial aid is provided on non-concessional basis (almost on commercial terms), since the majority of international institutions' capital is accumulated from private sources.

Another urgent direction for reformation of the approaches to multilateral aid providing is withdrawal from crediting in favour of grants. The international banks should respectively be transformed into multilateral development agencies committed not to lending but to helping poor countries overcome barriers to economic development, whereas all risks (including political) and other credit functions should be shared by the world market for private capital. The performance of such development agencies should be transparent for assessment by independent supervisors.

The biggest, next to the World Bank and IMF, donor of multilateral technical and so-called «pre-investment» aid is the UNDP, which helps developing countries to implement projects in the areas of information and communication technologies, energy-saving, environmental protection, education, human security, guarantee of human rights and good governance, and fight against the AIDS. The effectiveness of international assistance under the Development Programme is somewhat higher than the aid provided by the other mentioned organizations (although it is much smaller in volume) since it has the advantages of «project assistance»: higher level of specialization, clearly defined goals, single administrative unit in the recipient country, donor's responsibility for aid allocation and rationing, stricter control over recipient countries' use of funds, clearly outlined responsibilities of donors and recipients, the opportunity to evaluate the project and determine expected outcomes having approved or negated its feasibility before its launch [3: 93].

The effectiveness of international (bilateral and multilateral) aid as one of external mechanisms for poverty eradication depends not only on the donors' available resources, motives and instruments, but also (and even to a greater extent) on the expediency of its use by the recipient country. The problem of corruption and so-called «kleptocracy» (larceny at the governmental level) is the main reason for and at the same time manifestation of scarce institutional support of the proper allocation of international economic aid (primarily financial), which is typical of almost all developing countries. Especially threatening is the directing of non-project aid to countries with oligarchic systems of state governance as it stipulates for direct incoming of funds into the state budget, instead of allotting them for realization of special projects on poverty reduction, which means these financial flows are neither targeted nor selective.

### **3. Effectiveness of International Assistance: The Ukrainian Dimension**

Proceeding from the analysis of theoretical approaches and world practice, we can formulate a system of criteria to evaluate the effectiveness of attracting and using international aid for poverty reduction in Ukraine: conformity between the directions, volumes and instruments of assistance and the Millen-

nium Goals and specific needs of the Ukrainian people; the recipient country's zeal for development and implementation of strategically important projects with application of external financial, intellectual and other resources; the donors' consideration for strategic priorities of Ukraine in the sphere of poverty eradication; backing down from foreign credit aid proved to be ineffective by the international practice; institutional support of the attraction and use of international aid, in particular the availability of proper contractual base, system of project results monitoring and national and foreign institutional control; the congruity of international aid and domestic poverty reduction mechanisms.

Traditionally, the most significant sources of Ukraine's external financing are the USA, Canada, Germany, the Netherlands, Great Britain, Sweden, Switzerland, Japan, Denmark, Korea, the EU, the UNO, the World Bank, the IMF, and the EBRD.

Ranking 78<sup>th</sup> in human development (2003), Ukraine received nearly 7 dollars per capita or 0.7% of GDP as aid under the ODA programmes, which is much less than did other Central and Eastern European countries (Bulgaria – \$63.0 (2.1%), Bosnia-Herzegovina – \$131.1 (7.7%), Romania – \$27.1 (1.1%), Latvia – 49.0 (1.0%), Estonia – \$62.6 (0.9%) respectively), where Human Development Index is higher than in Ukraine [20]. All this suggests that donor motives are mercantile and sometimes geopolitical in nature, as well as that donors view our country as the recipient incapable of using the granted resources rationally.

Ukraine actively attracts financial aid in the form of loans from the International Bank for Reconstruction and Development (IBRD), since these borrowings have advantages over commercial bank credits and much better meet the Ukrainian specifics than do soft credits and grants of the International Development Association. This aid comes into such major sectors of economy as state, private and financial sectors, agriculture, fuel and energy complex, as well as sector of environmental protection and social sector (Table 2). However, as the analysis shows, external financing is mostly channelled into projects that are not directly related with the realization of Ukraine's poverty reduction strategy; limited funds are granted for improvement of the quality of medical, educational services, social security, and environmental protection. It speaks of the discrepancy between the national priorities and the motives of donors and consequently the directions of financial flows from international financial institutions, in particular the World Bank which, similar to other credit institutions, is guided by the profitability criterion when choosing a recipient. The low efficiency of poverty reduction projects in Ukraine is also preconditioned by the low interest of national officials in reaching the declared poverty reduction goals and high corruption. As already mentioned above, the main peculiarity of the loans issued by the World Bank and the International Monetary Fund is that they carry certain obligations with respect to political, economic and social programmes developed by international financial organizations, upon meeting which Ukraine could be assured of receiving further financial assistance from these institutions. On the one hand, such a practice could in theory give a positive effect, but on the other hand, as

shows the Ukrainian and foreign practice, the fulfilment of the requirements of international institutions is a slow process often accompanied by negative social consequences. Even though the credits are extended in tranches, in Ukraine – upon meeting the agreed terms of issuance – they are often «consumed», instead of being spent on reaching the project goals.

Table 2.

**The IBRD/IDA programmes of credit assistance to Ukraine**

Fiscal year	Project Title	Project value, US\$ mn	Strategic benefits	Implementation risks
2005	Rehabilitation of hydroelectric power plants	106	average	average
	Loan for Development Policy I	251.26	high	average
	Equal access to quality education	86.59	high	high
2006	Loan for Development Policy II	300	high	high
	Broad access to financial services	125	high	high
	Transfer of electric power	150	average	average
	Water supply/ water draining	80	average	high
	Improvement of the social welfare system	50	high	high
	Management of public finance/ treasury system	50	high	average
	Regeneration of forests	70	high	average
	Export development project	100	average	low
2007	Health care reform	75	high	high
	Loan for Development Policy III	300	high	high
	Rural economic development	75	high	high
	Reduction of pollution and law-abidance in industry	50	high	high
	Social investments/ employment	75	high	high
	Infrastructure	425	high	average
	Total	2367.5		

Source: Мартыненко І. Н. Особенности деятельности Всемирного банка в Украине // Вісник Економічної науки України. – 2005. – № 2. – С. 118–124.

The Strategy of Assistance to Ukraine for the period of 2004-2007 was developed by the experts of the IBRD, International Financial Corporation and Multilateral Investment Guarantee Agency (MIGA) with participation of the Ukrainian government; it took into consideration all weak points of the previous strategies and was directed at achieving social goals of our country (poverty reduction and consolidation of middle class, comprehensive and harmonious human development, ecological stability, reduction of regional imbalances). Nevertheless, the majority of indicators that the Ukrainian power had expected to reach during the period of Strategy implementation are still in plans. Among the basic reasons for that state of things, in addition to those mentioned above, are political instability, unpreparedness of relevant ministries to implement «social» projects, weak targeting of aid, bulkiness of resources allocation procedures, low involvement of general public in the process of project creation and realization, absence of public control over the use of provided funds, inefficiency of the system of state purchasing, etc. As a result, the World Bank, as well as other international donors, is very circumspect as for providing financial aid to our country.

The funds extended to Ukraine within the framework of bilateral assistance are tied to the condition of purchasing industrial equipment and other goods in donor countries (they use these extended loans to finance their own producers). For all that, however, the majority of scientists assert that Ukraine would benefit more if it attracted credits and grants from the individual countries that do not advance such rigid credit terms as do the IMF and IBRD. In addition, they believe the conditions of granting financial aid also greatly depend on the position of Ukraine, not only the donors alone.

As a consequence of unsettled issues in the cooperation between Ukraine and international financial donors, much less success has been achieved in poverty reduction than it had been expected. The matter primarily concerns the discrepancy between the international organizations' credit programmes and the goals of poverty eradication in Ukraine; the mutual lack of proper monitoring over the targeted use of granted loans; insufficient funds channeled to social projects; unjustified attraction of government-guaranteed foreign credits, etc.

A potentially significant role, as a mechanism of poverty eradication strategy realization in Ukraine, belongs to assistance provided within the framework of technical and economic cooperation between Ukraine and more than 20 countries of the world (the European countries, USA, Canada, Asian countries) and international institutions (EC, UNDP, IBRD, EBRD, and others) (see Table 3).

Since 1992, the donors have directed over US\$5.8bn for realization of international technical support projects in Ukraine, \$3bn of which was apportioned by the USA, whose aid budget exceeds the total volume of aid provided by other donors [22]. Unfortunately, since 1999, the volumes of American technical support have been gradually shrinking, the funds being channelled mostly into the projects not directly related to settling of the poverty reduction problem in Ukraine, which testifies to the discrepancy between the national priorities and

the donors' motives and objectives. In 2005, for example, the USA granted \$79.2mn for realization of the Freedom Support Act projects, whereas for the child health care and anti-AIDS projects and humanitarian projects it allotted only US\$2.2mn and \$1.33mn respectively.

*Table 3.*

**International Technical Assistance to Ukraine in 1999–2006 (US\$ mn)**

Country/ organization	1999	2000	2001	2002	2003	2004	2005	2006 (f)*
USA (total)	284.44	272.98	232.26	253.1	227.48	143.47	172.2	265
USA (incl. under US Freedom Support Act)	203.5	175.05	172.9	156.5	139.7	94.0	139.2	172.2
Canada	13.5	13.5	13.0	12.7	14.3	14.0	14.0	14.0
EU (TACIS)	126.8	125.9	146.4	120.0	113.6	120.0	189.37	166.0
Netherlands	8.3	7.1	9.75	5.8	7.0	7.0	6.15	6.15
Sweden	3.45	2.18	2.7	5.3	6.4	6.4	na	na
Great Britain	15.1	14.1	13.0	10.6	15.1	na	12.95	12.95
Germany	10.1	8.71	8.7	6.1	9.5	na	1.9	na
Switzerland	2.0	5.0	5.35	2.9	3.43	na	na	na
UNDP	3.5	3.5	5.13	2.28	14.0	10.0	15.0	30.0
Japan	5.8	6.81	0.38	0.38	0.8	0.8	0.8	6.7
Denmark	na	na	na	2.1	1.5	na	na	na
China	na	1.2	1.2	1.2	1.2	1.27	1.2	1.2
IBRD	6.6	7.3	3.49	10.24	5.76	4.0	4.5	5.0
EBRD	54.0	60.0	53.0	61.0	70.0	100	100	100

Note: \*(f) – forecast; \*\*na – data not available.

Source: Ministry of Economy in Ukraine / <http://me.kmu.gov.ua>.

The next biggest donors of bilateral technical support to Ukraine are Canada and Japan. However, their projects also contribute to poverty reduction rather indirectly. Considerably more targeted in the context of poverty reduction is the aid granted under the programme of the Ministry of Great Britain (DFID), the priorities of which for 2006-2008 include: improvement of the quality of provided social services and creation of effective social policy; support of social and economic development in Donetsk, Lyhansk and Lviv regions; development of the private sector and regulatory policy; reformation of the system of state administration and public service; support in the realization of Ukraine's WTO accession plans; increasing of the State Statistics Committee's capacity to provide

verified and accurate data; enhancing of the role and intensification of the ability of local communities to resolve their problems in their own municipalities; ensuring of a more coordinated approach to fight against proliferation of the AIDS [23]. Nevertheless, the unevenness of technical support distribution in the regions of Ukraine (its concentration in big cities) and low-level coordination among both bilateral and multilateral donors do not let us talk about sufficient effectiveness of the technical assistance as a whole, and the mentioned aid provided by Great Britain in particular.

Throughout the recent years, the majority of donor countries have been reducing their technical assistance to Ukraine, which testifies to their donor fatigue because of its irrational, – as they say, – use by the recipient country. Instead, multilateral aid has grown in significance. Thus, the UNDP together with Ukrainian government developed the UN Development Assistance Framework (UNDAF) for 2006–2010 in order to support and assist in consolidating democracy, creating the system of human rights protection and developing the Ukrainian economy in conformity with the national policy and programmes, as well as Millennium Development Goals (institutional reform, civil society consolidation, access to quality health care and life-long education, environmental protection, fight against AIDS and tuberculosis, gender equality assurance, poverty reduction) [22; 24].

The analysis of technical assistance received by Ukraine from bilateral and multilateral donors points to the recipient's negligible role (lacking initiative) in determining the priority directions for foreign assistance, their divergence from the national poverty eradication strategy and lack of the proper mechanism for coordination and monitoring of external resources allocation aimed at reaching the goals of population's welfare improvement in Ukraine, which considerably lowers the quality of technical assistance.

It is also worth to underscore the low effectiveness of the basic forms of technical assistance – it is mostly granted to Ukraine in the form of consultations, advice and recommendations of foreign experts, which often fail to consider the fact that projects are being realized under the conditions of imperfect state and public institutions, which makes it impossible to use the so-called «twinning»<sup>5</sup> mechanism and properly direct the aid.

## Conclusions

Summing up the above mentioned, we have come to a conclusion that international aid, in spite of its various forms and sources, has unfortunately not yet shown its full potential as for contributing to the main aim of the world com-

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<sup>5</sup> Twinning – the mechanism of attracting international aid, which stipulates for active involvement of experts from the recipient country in project implementation.

munity – poverty eradication. The parties at fault are both the donors with their pragmatic and egoistic motives and the recipients with their lack of initiative and irrationality in attraction of external development assistance.

In our opinion, bilateral and multilateral development assistance is methodologically the simplest mechanism of the poverty reduction policy, which includes the system of internal (budgetary, fiscal, monetary, foreign economic policies of the state) and external (international trade, lending and borrowing policies) levers and is designed to complement their instruments, not replace them. Effectiveness of international economic aid can be achieved by means of (a) correctly identified priorities, both branch-wise and temporal (preference should be given to long-term goals); (b) clearly identified recipient selection criteria, which would enable to define directions and volumes of assistance allocation, and most importantly, not overlook the countries that really need such assistance; (c) harmonized efforts of both donors and recipients and their correspondence with recipient's domestic poverty reduction strategies; (d) creation of proper institutional providing of the rational use of attracted aid.

The main reasons that hinder the activity of international donors in Ukraine and decrease the effectiveness of aid for poverty reduction are the underdeveloped institutional infrastructure; especially poor performance of the third sector (weak civil society); scarce budgeting (small volumes of foreign aid, in particular for reforms in the social sphere); multi-vector projects, the majority of which are not directly related with the implementation of poverty reduction strategy in Ukraine; isolation of individual projects on international aid and their duplication.

So long as the transition to innovation growth aimed at increasing the quality of human capital and effectiveness of its employment is a recognized alternative to attraction of the foreign monetary aid (in view of its negative externalities), the priority for Ukraine is the realization, together with foreign donors, of the technical support projects. In the context of poverty reduction, it would be most beneficial for our country to direct aid into those areas the development of which will ensure a stable increase in the long-term quality of living, including education, science, health care, and private business.

The development of the rational model for attraction and use of international aid in Ukraine is the main direction for our further research.

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