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2022/0026 (COD)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on providing macro-financial assistance to Ukraine

{SWD(2022) 25 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

Ukraine has been developing a strong partnership with the European Union since 2014, going beyond mere bilateral cooperation to evolve towards gradual political association and economic integration. The EU-Ukraine Association Agreement, which entered into force on 1 September 2017 and includes a Deep and Comprehensive Free Trade Area, is the main tool for bringing Ukraine and the EU closer together. In addition to promoting deeper political ties, stronger economic links and the respect for common values, the Agreement has provided a solid framework for pursuing an ambitious reform agenda, focused on the fight against corruption, an independent judicial system, the rule of law, and a better business climate. The EU has shown continuous support for these reforms, which are crucial for attracting investments, boosting productivity and lifting the standards of living in the medium term. Among other support instruments, the EU has supported Ukraine through five consecutive Macro-Financial Assistance (MFA) operations that totalled EUR 5 billion of loans in the period 2014-2021.

However, notwithstanding the strategic long-term political orientation and commitment to implementing reforms, Ukraine continues to face significant challenges. Since the outbreak of the COVID-19 pandemic, more than 3.8 million contaminations resulted in almost 100,000 deaths. The return to economic growth in 2021 was slow, driven primarily by the retail and construction sectors, and the outlook is surrounded by considerable risks. Inflation accelerated and reached 10% at the end of 2021. The growing geopolitical tensions at its border with Russia have had considerable knock-on effects on confidence, in particular of foreign investors. The national currency has lost 9% of its value relative to the USD since mid-November 2021, despite interventions by the National Bank of Ukraine for about USD 1.6 billion during the same period, thereby drawing down the stock of official reserves by 5.5%.

In this context, the yields on the Ukrainian government Eurobonds increased to prohibitive levels in mid-January 2022. Private financing of the underlying balance-of-payments gap of Ukraine is thus no longer available at sustainable terms. Based on the latest projections by the International Monetary Fund in their first programme review, concluded on 8 November and approved on 22 November 2021, the lack of access to capital markets would imply a widening of the country’s funding gap by the equivalent of, at least, USD 2.5 billion in 2022. Moreover, the escalating geopolitical tensions are having a detrimental effect on Ukraine's already precarious economic and financial stability. Persistent security threats have already triggered a substantial outflow of capital. The negative impact on future investment, where Ukraine has been lagging behind regional peers already, further reduces the country’s resilience to both economic and political shocks. Furthermore, the multiple threats that Ukraine currently is facing put a lot of pressure on state institutions to protect its citizens, which generates significant additional risks to the overall stability of the country and the broader society.

Against the backdrop of the loss of access to international capital markets due to the heightened geopolitical uncertainty and its impact on the economic situation in Ukraine, the Commission is submitting to the European Parliament and the Council a proposal to provide a new MFA of EUR 1.2 billion in the form of loans to foster stability in Ukraine.

The planned emergency MFA, put forward to provide swift support in a situation of acute crisis and to strengthen the resilience of the country, will have a duration of 12 months and include two disbursements. The release of the first tranche, subject to the political precondition and a satisfactory implementation of the IMF programme, would occur swiftly after the approval of this proposal, upon entry into force of the Memorandum of Understanding (MoU) on specific structural policy measures, agreed between the European Commission on behalf of the EU and Ukraine. The disbursement of the second tranche would be linked to the continuous satisfactory implementation of both an IMF programme and the policy measures agreed in the MoU. The MoU underpinning this emergency macro-financial assistance operation is likely to focus on a limited number of feasible, short-term policy actions in the most urgent priority areas, such as strengthening economic resilience and stability, governance and rule of law, and energy. A subsequent, longer-term MFA could look beyond the immediate crisis and focus on a broader set of reform priorities. The implementation of the proposed operation is expected to go hand-in-hand with the support under budgetary operations financed by the Neighbourhood, Development and International Cooperation Instrument (NDICI). The announced additional allocation of EUR 120 million in NDICI grants will be important to further strengthen Ukraine's state-building and resilience efforts. Moreover, the EU will work closely with Ukraine to follow up on their request for a subsequent, regular MFA operation when the situation stabilises.

As further elaborated in the Commission Staff Working Document accompanying this proposal, the Commission considers, based also on the assessment of the political situation made by the European External Action Service, that the political and economic pre-conditions for the proposed MFA operation are satisfied.

- **General context**

The risks from the current geopolitical tensions and the security concerns at the border with Russia have been rising steadily since mid-November. They have weighed heavily on investors' confidence, as evidenced by a steady outflow of capital and drain on official foreign reserves. The weakening of the hryvna, despite continued interventions by the National Bank of Ukraine in support of the domestic currency, and the de facto loss of access to capital markets for the government increase the risks to the macroeconomic outlook of Ukraine significantly. Following a less severe-than-expected recession of 4% only in 2020, the Gross Domestic Product contracted by 2.2% year-on-year in the first quarter of 2021. The second quarter rebound by 5.7% year-on-year is disappointing, given the size of the earlier contraction, and was followed by a deceleration of growth to 2.7% in the third quarter. The weaknesses in growth are driven by both the on-going difficult pandemic situation (with the number of COVID-19 cases rising and a relatively low vaccination rate of 33% by late January 2022), the impact on confidence from escalating tensions, and by constraining structural factors, including a chronically low investment rate. Among the significant structural obstacles to investment, the still wide-spread corruption and the unfinished governance reform of the dense network of state-owned enterprises remain priorities for future policy efforts.

Taking into account the growing money supply and the accelerating inflation, the National Bank of Ukraine (NBU) increased its key policy rate by 400 basis points to 10% between June 2021 and January 2022. After significant disinflation in the first half of 2020, inflation had started accelerating again in November 2020. The average increase in consumer goods' prices reached 11% in September 2021, before moderating to 10% in December. The acceleration in producer goods' price inflation is still ongoing, the rate having amounted to a spectacular 62.2% in December 2021. While the NBU considers that the peak in inflation has been reached, further monetary tightening is to be expected in the course of 2022, especially to rein inflation in to the 4% to 6% target. In the current context of a gradual global tightening of financing conditions, and as an emerging market, Ukraine is also exposed to additional fragility stemming from a re-assessment of global risks.

On the back of return to growth and higher tax revenues, the 2021 public deficit is estimated at 3.1% of Gross Domestic Product, which is 200 basis points lower than the initially planned deficit. Public revenues rose by 24% in 2021, which is 2.8 percentage points higher than planned, while spending increased by 11%, which is 1.5 percentage points below the target. In light of these results, public finances performed well last year. The 2022 budgetary deficit is currently planned at 3.5% of Gross Domestic Product, but the actual turnout is very uncertain, can prove dramatically worse, and will notably depend on how the international geopolitical context evolves.

Following the resumption of economic growth, the significant 2020 current-account surplus, reflecting demand compression, turned into a deficit in 2021. After a surplus of USD 5.3 billion in 2020, the current account registered a deficit of USD 830 million, or 0.5% of Gross Domestic Product, in the period January-August 2021. Over the same period, exports and imports of goods rose by respectively 36% and 30% year-on-year, resulting in a merchandise trade deficit of USD 3 billion. The services balance, where exports and imports increased by respectively 12% and 21%, showed a surplus of USD 2.3 billion. Primary income turned into a significant deficit of USD 3 billion, as opposed to a surplus of USD 3.2 billion in January-August 2020, despite remittances surging by 18% to USD 8.9 billion. The stock of foreign direct investment also recovered significantly in the first half of 2021, notably due to the reinvestment of earnings.

The stock of official foreign exchange reserves proved stable throughout the pandemic in 2020 and even reached an all-time high of USD 31.6 billion in August 2021, including the additional allocation of Special Drawing Rights by the IMF for the equivalent of USD 2.73 billion. Despite a minor decline in September 2021, reserves continued to grow and remained close to USD 31 billion in December of last year, which is still 6% higher than a year earlier. However, following the recent change in investors' confidence and the ensuring central bank's interventions in the foreign exchange market for more than USD 700 million in the start of 2022, official reserves are expected to have declined.

- **Consistency with existing policy provisions in the policy area**

Decision No 701/2020/EU on providing previous macro-financial assistance to Ukraine (as part of the MFA package to the enlargement and neighbourhood countries in the context of the COVID-19 pandemic) in the amount of EUR 1.2 billion in loans was adopted by the European Parliament and the Council on 25 May 2020. The assistance was fully disbursed during 2020-2021.

- **Consistency with other Union policies**

The proposed MFA is in line with the objectives of the European Neighbourhood Policy. It contributes to support the European Union's objectives of economic stability and development in Ukraine and, more broadly, resilience in the Eastern European neighbourhood. By supporting the authorities' efforts to establish a stable macroeconomic framework and implement ambitious structural reforms, the proposed operation enhances the added value of the overall EU involvement in Ukraine and improves the effectiveness of other forms of EU financial assistance to the country, including budget support operations and grants available through external financial instruments under the current multiannual financial framework for 2021-2027. The proposed emergency MFA is part of an EU package containing also a grant element, through the additional deployment of EUR 120 million under the "Neighbourhood, Development and International Cooperation Instrument – Global Europe" (NDICI-Global Europe), and is an integral part of overall international support for Ukraine. MFA will continue to complement the assistance provided by other multilateral and bilateral donors.

These efforts should be seen against the important economic ties Ukraine has established with the EU. On 1 September 2017, the EU-Ukraine Association Agreement came into force. The provisions concerning the Deep and Comprehensive Free Trade Area had been provisionally applied since 1 January 2016, when the EU and Ukraine started to mutually open their markets for goods and services. The EU is Ukraine's first trading partner, accounting for 38.1% (in value terms) of Ukraine's total external trade turnover in 2020. EU countries account persistently for one third of the Ukrainian exports of goods and services. Imports from EU countries have been growing even more and reached 43.3% of all imports in 2020.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The legal basis for this proposal is Article 212 TFEU.

- **Subsidiarity (for non-exclusive competence)**

The subsidiarity principle is respected as the objectives of restoring macro-financial stability in the short-term in Ukraine cannot be sufficiently achieved by the Member States alone and can be better achieved by the European Union. The main reasons are the budgetary constraints faced at the national level and the need for strong donor coordination in order to maximise the scale and effectivenes of the assistance.

- **Proportionality**

The proposal complies with the proportionality principle: it confines itself to the minimum required in order to achieve the objectives of strengthening macro-financial stability in the short-term and does not go beyond what is necessary for that purpose.

As identified by the Commission based on the estimates of the IMF in the context of the current Stand-by Arrangement, the amount of the proposed new MFA corresponds to close to half of the estimated residual financing gap for 2022, whilst noting that this gap was calculated prior to the recent deterioration of the crisis. This proportion is consistent with standard practices on burden-sharing for MFA operations (for a country with an Association Agreement, the upper limit would be 60% according to the ECOFIN Council conclusions of 8 October 2002), taking into account the assistance pledged to Ukraine by other bilateral and multilateral donors.

- **Choice of the instrument**

Project finance or technical assistance would not be suitable or sufficient to address the macroeconomic objectives. The key value added of the MFA in comparison to other EU instruments would be to alleviate the external financial constraints and to help create a stable macroeconomic framework, including by promoting a sustainable balance of payments and budgetary situation, and an appropriate framework for structural reforms. By helping to put in place an appropriate overall policy framework, MFA can increase the effectiveness of the actions financed in Ukraine under other, more narrowly-focused EU financial instruments.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

MFA is provided as an integral part of the international support for the economic stabilisation of Ukraine. In the preparation of this proposal for MFA, the Commission services have consulted with the IMF and the World Bank, which already have sizeable financing programmes. The Commission has also been in regular contact with the Ukrainian authorities.

• **Collection and use of expertise**

In line with the requirements of the Financial Regulation, in the context of the COVID-19 MFA package, the Commission services have carried out an Operational Assessment (OA) of the financial and administrative circuits of Ukraine in order to ascertain that the procedures in place for the management of programme assistance, including MFA, provide adequate guarantees. This Operational Assessment drew on the findings of the 2018 OA, which could be considered broadly up to date, and the thorough analysis of the 2019 Public Expenditure and Financial Accountability Performance Assessment report. The assessment concludes that the financial circuits and procedures in Ukraine are found to be based and work on sound principles and are therefore deemed appropriate for the purposes of Macro-Financial Assistance. Developments in this area will continue to be closely monitored also through the regular progress reports on PFM reforms produced by the EU Delegation in Kyiv.

• **Impact assessment**

The EU’s macro-financial assistance is an exceptional emergency instrument aimed at addressing severe balance-of-payment difficulties in third countries. Therefore, this MFA proposal is exempted from the requirement to carry out an Impact Assessment in accordance with the Commission's Better Regulation Guidelines (SWD(2015) 111 final) as there is a political imperative to move ahead quickly in a situation requiring a rapid response.

More generally, the Commission's MFA proposals build on lessons learned from ex-post evaluations carried out on past operations in the EU's neighbourhood. The new MFA, and the economic adjustment and reform programme attached to it, will help alleviate the short-term financing needs of Ukraine. The attached policy measures aimed at strengthening the medium-term balance of payments position and fiscal sustainability will raise resilience and contribute to a more sustainable growth model, thus complementing the current IMF programme. The policy conditions should build upon the achievements of the five MFA programmes since 2015, including the latest COVID-19 emergency MFA assistance. Possible areas of conditionality could, in principle, include reforms to strengthen the fight against corruption, the independence of the judicial system, the governance of state-owned enterprises and the energy sector.

• **Fundamental rights**

Countries that are covered by the ENP are eligible for MFA. A pre-condition for granting MFA is that the eligible country respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and guarantees respect for human rights.

The renewed reform-commitment and strong political will by the Ukrainian authorities, in particular as evidenced by the successful completion of the structural policy conditionality attached to the last and fifth COVID-19 MFA programme to Ukraine, in key areas including the judiciary, good governance, the rule of law and the fight against corruption, is a clear positive sign. The authorities are committed to pursue these reforms in a transparent manner and in line with EU standards. To that end, the political pre-condition for an MFA operation is considered to be satisfied.

4. BUDGETARY IMPLICATIONS

The proposed EUR 1.2 billion MFA operation for Ukraine is foreseen to be disbursed in two equal tranches to be released within 12 months. These funds will be borrowed in the capital market and onlend to Ukraine. The loan will be backed by the External Action Guarantee. The required provisioning (at a rate of 9% of the amount of the loan) is provided under the Neighbourhood, Development and International Cooperation Instrument (NDICI), for a total amount of EUR 108 million (budget line 14 02 01 70 "NDICI – Provisioning of the Common Provisioning Fund").

5. OTHER ELEMENTS

• Implementation plans and monitoring, evaluation and reporting arrangements

The European Union shall make the MFA available to Ukraine for a total amount of EUR 1.2 billion, provided in the form of medium- to long-term loans. This assistance will contribute to covering the residual financing needs of Ukraine in 2022. The assistance is planned to be disbursed in two equal instalments. The release of the first tranche would occur swiftly after the approval of this proposal and the entry into force of the corresponding MoU. The disbursement of the second tranche is conditional upon the successful and timely implementation of structural policy measures, to which the Ukrainian authorities would commit.

The assistance will be managed by the Commission. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, are applicable.

The Commission and the Ukrainian authorities would agree on a Memorandum of Understanding setting out the structural reform measures associated with the proposed MFA operation, including aspects of timing and sequencing. Moreover, as is normally the case with MFA, the disbursements would inter alia be conditional on the continuous successful implementation of an IMF programme, as well as progress on the implementation of the EU-Ukraine Association Agreement and the Deep and Comprehensive Free Trade Area. The Commission will work closely with the authorities to monitor progress on the policy actions and the pre-conditions, as specified above.

2022/0026 (COD)

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DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on providing macro-financial assistance to Ukraine

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 212 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) Relations between the European Union ('the Union') and Ukraine continue to develop within the framework of the European Neighbourhood Policy and the Eastern Partnership. An Association Agreement between the Union and Ukraine, including a Deep and Comprehensive Free Trade Area (DCFTA), entered into force on 1 September 2017.

(2) Since spring 2014, Ukraine has embarked on an ambitious reform programme aiming to stabilise its economy and improve the livelihoods of its citizens. The fight against corruption as well as constitutional, electoral and judicial reforms are among the top priorities on the agenda. The implementation of these reforms has been supported by five consecutive Macro-financial Assistance programmes, under which Ukraine has received assistance loans for a total of EUR 5 billion. The latest, COVID-19 emergency, MFA[1], provided EUR 1.2 billion of loans and was completed in September 2021.

(3) The economy of Ukraine has been affected by the 2020 recession caused by the COVID-19 pandemic and by prolonged security threats at its border with Russia. The continuous build-up in uncertainty has resulted in a recent loss of confidence, affecting the economic outlook negatively, and in the loss of access to international capital markets since mid-January 2022. The strongly deteriorating financing conditions contribute to a sizable and increasing residual external financing gap and weigh heavily on investment, thereby weakening the resilience to future economic and political shocks.

(4) The Ukrainian government has demonstrated a strong commitment to further reforms, with a short-term focus at the current critical juncture on key policy areas such as economic resilience and stability, governance and rule of law, and energy.

(5) With renewed reform-commitment and strong political will, the authorities have accelerated reform implementation since the summer of 2021, which has also allowed

[1] Decision (EU) 2020/701 of the European Parliament and of the Council of 25 May 2020 on providing macro- financial assistance to enlargement and neighbourhood partners in the context of the COVID-19 pandemic, OJ L 165, 27.5.2020, p. 31–37

Ukraine to successfully complete the COVID-19 MFA operation, as all reform actions agreed with the Union in the Memorandum of Understanding had been fulfilled.

(6) To allow for more policy flexibility in the Covid19-related crisis context, the International Monetary Fund ('IMF') approved in June 2020 an 18-month Stand-by Arrangement with Ukraine for the equivalent of USD 5 billion. The agreed-upon policies focus on four priorities: (i) mitigating the economic impact of the crisis, including by supporting households and businesses; (ii) ensuring continued central bank independence and a flexible exchange rate; (iii) safeguarding financial stability while recovering the costs from bank resolutions; and (iv) moving forward with key governance and anti-corruption measures to preserve and deepen recent gains. Due to an uneven implementation record, the first programme review, which also agreed on an extension of the programme until end-June 2022, was only concluded in November 2021. This brought the total of disbursements under the current IMF programme to the equivalent of USD 2.8 billion thus far. Two more reviews are planned by the end of the second quarter of 2022.

(7) In view of high budget financing risks, in the context of a slow recovery from the COVID-19 recession and quickly accelerating inflation, Ukraine requested a new long-term macro-financial assistance programme for up to EUR 2.5 billion from the Union on 16 November 2021. However, this emergency operation is, in particular, responding to the sharp and unexpected increase in the external financing needs of the country, triggered by the de facto loss of access to financial markets, and to the underlying immediate challenges.

(8) Given that Ukraine is a country covered by the European Neighbourhood Policy, it should be considered to be eligible to receive macro-financial assistance from the Union.

(9) The Union's macro-financial assistance should be an exceptional financial instrument of untied and undesignated balance-of-payments support, which aims at addressing the beneficiary's immediate external financing needs and should underpin the implementation of a policy programme containing strong immediate adjustment and structural reform measures designed to improve the balance-of-payments position in the short term and economic resilience in the medium term.

(10) Given that the loss of market access and the capital outflow have created a significant residual external financing gap in Ukraine's balance of payments over and above the resources provided by the IMF and other multilateral institutions, the Union emergency macro-financial assistance to be provided to Ukraine swiftly is, under the current exceptional circumstances, considered to be an appropriate short-term response to the sizeable risks to the country. The Union's macro-financial assistance would support the economic stabilisation and aim at strengthening the immediate resilience of the country, as well as and where so is feasible at present, strengthen the structural reform agenda of Ukraine, supplementing resources made available under the IMF's financial arrangement.

(11) The Union's macro-financial assistance should aim to support the restoration of a sustainable external financing situation for Ukraine, thereby supporting its economic and social development.

(12) The Union's macro-financial assistance is expected to go hand-in-hand with the implementation of disbursements of budget support operations under the

Neighbourhood, Development and International Cooperation Instrument established by Regulation (EU) 2021/947 of the European Parliament and of the Council[2].

(13) The determination of the amount of the Union's macro-financial assistance is based on a quantitative assessment of Ukraine's residual external financing needs, and takes into account its capacity to finance itself with its own resources, in particular the international reserves at its disposal. The Union's macro-financial assistance should complement the programmes and resources provided by the IMF and the World Bank. The determination of the amount of the assistance also takes into account expected financial contributions from multilateral donors and the need to ensure fair burden sharing between the Union and other donors, as well as the pre-existing deployment of the Union's other external financing instruments in Ukraine and the added value of the overall Union involvement.

(14) The Commission should ensure that the Union's macro-financial assistance is legally and substantially in line with the key principles, objectives and measures taken within the different areas of external action and other relevant Union policies.

(15) The Union's macro-financial assistance should support the Union's external policy towards Ukraine. The Commission and the European External Action Service should work closely together throughout the macro-financial assistance operation in order to coordinate, and to ensure the consistency of, Union external policy.

(16) The Union's macro-financial assistance should support Ukraine's commitment to values shared with the Union, including democracy, the rule of law, good governance, respect for human rights, sustainable development and poverty reduction, as well as its commitment to the principles of open, rules-based and fair trade.

(17) A pre-condition for granting the Union's macro-financial assistance should be that Ukraine respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights. In addition, the specific objectives of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance management systems and promote structural reforms aimed at supporting sustainable and inclusive growth, decent employment creation and fiscal consolidation. Both the fulfilment of the preconditions and the achievement of those objectives should be regularly monitored by the Commission and the European External Action Service.

(18) In order to ensure that the Union's financial interests linked to the Union's macro-financial assistance are protected efficiently, Ukraine should take appropriate measures relating to the prevention of, and fight against, fraud, corruption and any other irregularities linked to the assistance. In addition, provision should be made for the Commission to carry out checks and for the Court of Auditors to carry out audits.

(19) Release of the Union's macro-financial assistance is without prejudice to the powers of the European Parliament and the Council as budgetary authority.

(20) The amounts of provisioning required for macro-financial assistance should be consistent with the budgetary appropriations provided for in the multiannual financial framework.

[2] Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, amending and repealing Decision No 466/2014/EU and repealing Regulation (EU) 2017/1601 and Council Regulation (EC, Euratom) No 480/2009 (OJ L 209, 14.6.2021, p. 1)

(21) The Union's macro-financial assistance should be managed by the Commission. In order to ensure that the European Parliament and the Council are able to follow the implementation of this Decision, the Commission should regularly inform them of developments relating to the assistance and provide them with relevant documents.

(22) In order to ensure uniform conditions for the implementation of this Decision, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council[3].

(23) The Union's macro-financial assistance should be subject to economic policy conditions, to be laid down in a Memorandum of Understanding. In order to ensure uniform conditions of implementation and for reasons of efficiency, the Commission should be empowered to negotiate such conditions with the Ukrainian authorities under the supervision of the committee of representatives of the Member States in accordance with Regulation (EU) No 182/2011. Under that Regulation, the advisory procedure should, as a general rule, apply in all cases other than as provided for in that Regulation. Considering the potentially important impact of assistance of more than EUR 90 million, it is appropriate that the examination procedure be used for operations above that threshold. Considering the amount of the Union's macro-financial assistance to Ukraine, the examination procedure should apply to the adoption of the Memorandum of Understanding, and to any reduction, suspension or cancellation of the assistance.

(24) Since the objective of this Decision, namely to provide emergency assistance to Ukraine with the view of supporting its resilience and stability, in particular cannot be sufficiently achieved by the Member States but can rather, by reason of its scale and effects, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union (TEU). In accordance with the principle of proportionality, as set out in that Article, this Decision does not go beyond what is necessary to achieve that objective.

(25) In view of the urgency entailed by the exceptional circumstances caused by the COVID- 19 pandemic and the associated economic consequences, it was considered to be appropriate to provide for an exception to the eight- week period referred to in Article 4 of Protocol No 1 on the role of national Parliaments in the European Union, annexed to the TEU, to the Treaty on the Functioning of the European Union and to the Treaty establishing the European Atomic Energy Community.

(26) This Decision should enter into force as a matter of urgency on the date following that of its publication in the Official Journal of the European Union,

HAVE ADOPTED THIS DECISION:

Article 1

1. The Union shall make macro-financial assistance of a maximum amount of EUR 1.2 billion available to Ukraine ("the Union's macro-financial assistance"), with a view to supporting macro-economic stabilisation and a substantive reform agenda. The assistance shall be provided in the form of loans. The release of the Union's macro-

[3] Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13).

financial assistance is subject to the approval of the Union budget for the relevant year by the European Parliament and the Council. The assistance shall contribute to covering Ukraine's balance of payments needs as identified in the IMF programme.

2. In order to finance the Union's macro-financial assistance, the Commission shall be empowered on behalf of the Union to borrow the necessary funds on the capital markets or from financial institutions and to on-lend them to Ukraine. The loans shall have a maximum average maturity of 15 years.

3. The release of the Union's macro-financial assistance shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the International Monetary Fund ('IMF') and Ukraine, and with the key principles and objectives of economic reforms set out in the EU-Ukraine Association Agreement, including the DCFTA, agreed under the European Neighbourhood Policy.

The Commission shall regularly inform the European Parliament and the Council of developments regarding the Union's macro-financial assistance, including disbursements thereof, and shall provide those institutions with the relevant documents in due time.

4. The Union's macro-financial assistance shall be made available for a period of one year, starting from the first day after the entry into force of the Memorandum of Understanding referred to in Article 3(1).

5. Where the financing needs of Ukraine decrease fundamentally during the period of the disbursement of the Union's macro-financial assistance compared to the initial projections, the Commission, acting in accordance with the examination procedure referred to in Article 7(2), shall reduce the amount of the assistance or suspend or cancel it.

Article 2

1. A pre-condition for granting the Union's macro-financial assistance shall be that Ukraine respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights.

2. The Commission and the European External Action Service shall monitor the fulfilment of this pre-condition throughout the life-cycle of the Union's macro-financial assistance.

3. Paragraphs 1 and 2 shall be applied in accordance with Council Decision 2010/427/EU[4].

Article 3

1. The Commission, in accordance with the examination procedure referred to in Article 7(2), shall agree with the Ukrainian authorities on clearly defined economic policy and financial conditions, focusing on structural reforms and sound public finances, to which the Union's macro-financial assistance is to be subject, to be laid down in a Memorandum of Understanding ("the Memorandum of Understanding") which shall include a timeframe for the fulfilment of those conditions. The economic

[4] Council Decision 2010/427/EU of 26 July 2010 establishing the organisation and functioning of the European External Action Service (OJ L 201, 3.8.2010, p. 30).

policy and financial conditions set out in the Memorandum of Understanding shall be consistent with the agreements or understandings referred to in Article 1(3), including the macroeconomic adjustment and structural reform programmes implemented by Ukraine with the support of the IMF.

2. The conditions referred to in paragraph 1 shall aim, in particular, at enhancing the efficiency, transparency and accountability of the public finance management systems in Ukraine, including for the use of the Union's macro-financial assistance. Progress in mutual market opening, the development of rules-based and fair trade, and other priorities in the context of the Union's external policy shall also be duly taken into account when designing the policy measures. Progress in attaining those objectives shall be regularly monitored by the Commission.

3. The detailed financial terms of the Union's macro-financial assistance shall be laid down in a Loan Agreement to be concluded between the Commission and Ukraine.

4. The Commission shall verify, at regular intervals, that the conditions referred to in Article 4(3) continue to be met, including whether the economic policies of Ukraine are in accordance with the objectives of the Union's macro-financial assistance. For that verification, the Commission shall coordinate closely with the IMF and the World Bank, and, where necessary, with the European Parliament and the Council.

Article 4

1. Subject to the conditions in paragraph 3, the Union's macro-financial assistance shall be made available by the Commission in two equal instalments, each of which shall consist of a loan. The timeline for the disbursement of each instalment shall be laid down in the Memorandum of Understanding referred to in Article 3.

2. The amounts of the Union's macro-financial assistance provided in the form of loans shall be provisioned, where required, in accordance with Regulation (EU) 2021/947 of the European Parliament and of the Council[5].

3. The Commission shall decide on the release of the instalments subject to the fulfilment of the following conditions:

(a) the pre-condition set out in Article 2;

(b) a continuous satisfactory track record of implementing a non-precautionary IMF credit arrangement;

(c) the satisfactory implementation of the economic policy and financial conditions agreed in the Memorandum of Understanding.

The release of the second instalment shall not, in principle, take place earlier than three months after the release of the first instalment.

4. Where the conditions in paragraph 3 are not met, the Commission shall temporarily suspend or cancel the disbursement of the Union's macro-financial assistance. In such cases, it shall inform the European Parliament and the Council of the reasons for that suspension or cancellation.

[5] Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, amending and repealing Decision No 466/2014/EU and repealing Regulation (EU) 2017/1601 and Council Regulation (EC, Euratom) No 480/2009 (OJ).

5. The Union's macro-financial assistance shall be disbursed to the National Bank of Ukraine. Subject to the provisions to be agreed in the Memorandum of Understanding, including a confirmation of residual budgetary financing needs, the Union funds may be transferred to the Ukrainian Ministry of Finance as the final beneficiary.

Article 5

1. The borrowing and lending operations related to the Union's macro-financial assistance shall be carried out in euro using the same value date and shall not involve the Union in the transformation of maturities, or expose it to any exchange or interest rate risk, or to any other commercial risk.

2. Where the circumstances permit, and if Ukraine so requests, the Commission may take the steps necessary to ensure that an early repayment clause is included in the loan terms and conditions and that it is matched by a corresponding clause in the terms and conditions of the borrowing operations.

3. Where circumstances permit an improvement of the interest rate of the loan and if Ukraine so requests, the Commission may decide to refinance all or part of its initial borrowings or may restructure the corresponding financial conditions. Refinancing or restructuring operations shall be carried out in accordance with paragraphs 1 and 4 and shall not have the effect of extending the maturity of the borrowings concerned or of increasing the amount of capital outstanding at the date of the refinancing or restructuring.

4. All costs incurred by the Union which relate to the borrowing and lending operations under this Decision shall be borne by Ukraine.

5. The Commission shall inform the European Parliament and the Council of developments in the operations referred to in paragraphs 2 and 3.

Article 6

1. The Union's macro-financial assistance shall be implemented in accordance with Regulation (EU, Euratom) No 1046/2018 of the European Parliament and of the Council[6].

2. The implementation of the Union's macro-financial assistance shall be under direct management.

3. The Loan Agreement and the Grant Agreement to be agreed with the Ukrainian authorities shall contain provisions:

(a) ensuring that Ukraine regularly checks that financing provided from the budget of the Union has been properly used, takes appropriate measures to prevent irregularities and fraud, and, if necessary, takes legal action to recover any funds provided under this Decision that have been misappropriated;

(b) ensuring the protection of the Union’s financial interests, in particular providing for specific measures in relation to the prevention of, and fight against, fraud, corruption and any other irregularities affecting the Union’s macro-financial assistance, in

[6] Regulation (EU, Euratom) No 1046/2018 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union and repealing Regulation (EC, Euratom) No 966/2012 (OJ L 193, 30.07.2018, p. 1).

accordance with Council Regulation (EC, Euratom) No 2988/95[7], Council Regulation (EC, Euratom) No 2185/96[8], Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council[9] and, for those Member States participating in enhanced cooperation regarding the European Public Prosecutor's Office, Council Regulation (EU) 2017/1939[10]; notably, to that end, the European Anti-Fraud Office (OLAF) shall be expressly authorised to carry out investigations, including in particular on-the-spot checks and inspections including digital forensic operations and interviews; expressly authorising the Commission, or its representatives to carry out checks, including on-the-spot checks and inspections;

(c) expressly authorising the Commission and the Court of Auditors to perform audits during and after the availability period of the Union's macro-financial assistance, including document audits and on-the-spot audits, such as operational assessments;

(d) ensuring that the Union is entitled to early repayment of the loan and/or to full repayment of the grant where it has been established that, in relation to the management of the Union's macro-financial assistance, Ukraine has engaged in any act of fraud or corruption or any other illegal activity detrimental to the financial interests of the Union.

(e) Ensuring that all costs incurred by the Union that relate to a financial assistance shall be borne by Ukraine.

4. Before the implementation of the Union's macro-financial assistance, the Commission shall assess, by means of an operational assessment, the soundness of Ukraine's financial arrangements, the administrative procedures, and the internal and external control mechanisms which are relevant to the assistance.

Article 7

1. The Commission shall be assisted by a committee. That committee shall be a committee within the meaning of Regulation (EU) No 182/2011.

2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

Article 8

1. By 30 June of each year, the Commission shall submit to the European Parliament and to the Council a report on the implementation of this Decision in the preceding year, including an evaluation of that implementation. The report shall:

(a) examine the progress made in implementing the Union's macro-financial assistance;

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7 Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.1995, p. 1).

8 Council Regulation (EC, Euratom) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission to protect the Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).

9 Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1).

10 Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office ('the EPPO') (OJ L 283, 31.10.2017, p. 1).

(b) assess the economic situation and prospects of Ukraine, as well as progress made in implementing the policy measures referred to in Article 3(1);

(c) indicate the connection between the economic policy conditions laid down in the Memorandum of Understanding, Ukraine's on-going economic and fiscal performance and the Commission's decisions to release the instalments of the Union's macro-financial assistance.

2. Not later than two years after the expiry of the availability period referred to in Article 1(4), the Commission shall submit to the European Parliament and to the Council an ex-post evaluation report, assessing the results and efficiency of the completed Union's macro-financial assistance and the extent to which it has contributed to the aims of the assistance.

Article 9

This Decision shall enter into force on the day after its publication in the Official Journal of the European Union.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Proposal for a Decision of the European Parliament and of the Council providing further Macro-financial assistance to the Republic of Ukraine

1.2. Policy area(s) concerned in the ABM/ABB structure[11]

Policy area:	Economic and Financial Affairs
Activity:	International economic and financial affairs

1.3. Nature of the proposal/initiative

X The proposal/initiative relates to **a new action**

☐ The proposal/initiative relates to **a new action following a pilot project/preparatory action**[12]

☐ The proposal/initiative relates to **the extension of an existing action**

☐ The proposal/initiative relates to **an action redirected towards a new action**

1.4. Objective(s)

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

"A new boost for jobs, growth and investment: promoting prosperity beyond the EU"

1.4.2. Specific objective(s)

Specific objective No

"Promoting prosperity beyond the EU"

ABM/ABB activity(ies) concerned

The DG ECFIN related activities pertain to:

(a) Supporting macro-financial stability and promoting growth-enhancing reforms outside the EU, including through regular economic dialogues with key partners and by providing macro-financial assistance; and

(b) Supporting the enlargement process and the implementation of the EU enlargement and neighbourhood policies and other EU priorities in partners by conducting economic analysis and providing policy assessments and advice.

1.4.3. Expected result(s) and impact

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

- Contribute to covering the external financing needs of Ukraine in the context of a significant deterioration of their external accounts brought about by the on-going COVID-19 pandemic and the confidence impact of the geopolitical tensions at its borders.

[11] ABM: activity-based management; ABB: activity-based budgeting.
[12] As referred to in Article 54(2)(a) or (b) of the Financial Regulation.

- Alleviate the partner's budgetary financing needs.
- Support the fiscal consolidation effort and external stabilisation in the context of an IMF programme.
- Support structural reforms aimed at improving the overall macroeconomic management, strengthening economic governance and transparency, and improving conditions for sustainable growth.

1.4.4. Indicators of performance

Specify the indicators for monitoring progress and achievements.

The authorities of Ukraine will be required to report on a set of economic indicators to the Commission services on a regular basis and, provide a comprehensive report on the compliance with the agreed policy conditions ahead of the disbursement of the instalments of the assistance.

The Commission services will continue to monitor public finance management, following the operational assessment of the financial circuits and administrative procedures in Ukraine, that was delivered in June 2020. The EU Delegation in the partners will also provide regular reporting on issues relevant for the monitoring of the assistance. The Commission services will remain in close contact with the IMF and the World Bank to benefit from their insights from their on-going activities in the respective partner.

An MFA annual report to the Council and European Parliament is foreseen in the proposed legislative decision, including an assessment of the implementation of this operation. An independent ex-post evaluation of the assistance will be carried out within two years after the expiry of the implementation period.

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative

The disbursement of the assistance will be conditional on the fulfilment of the political pre-conditions and conditional on the continuous successful implementation of an IMF programme. The current IMF programme, which was approved by the Board on 9 June 2020, following the implementation by the Ukrainen authorities of a number of prior actions, was extended on 21 November 2021 until end-June 2022, following the successful conclusion of the first programme review. In addition, the Commission shall agree with the authorities of Ukraine on specific policy conditions, listed in a Memorandum of Understanding.

The assistance is planned to be disbursed in two instalments. The disbursement of the first instalment is expected to take place upon entry into force of the Memorandum of Understanding, possibly still in the first quarter of 2022. The second instalment could be disbursed within a year of the entry into force of the Memorandum of Understanding.

1.5.2. *Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.*

The instrument of macro-financial assistance is a policy-based instrument directed to alleviate short- and medium-term external financial needs. Given the loss of access to the international capital markets, the instrument provides essential financing to the widening residual financing gap of the country. The MFA will complement the resources made available by the international financial institutions, bilateral donors and other EU financial institutions. In doing so, it will contribute to the overall effectiveness of the financial support provided by the international community, as well as of other EU financial assistance, including budgetary support operations.

Furthermore, by providing long-term financing in highly concessional terms, usually lower than the rest of international or bilateral donors, the MFA programme is expected to help the government to execute its budget without fiscal deviations and to contribute to debt sustainability.

In addition to the financial impact of the MFA, the proposed programme will strengthen the governments' reform commitment and their aspiration towards closer relations with the EU, as reflected by the Association Agreement that entered into force in 2017. This result will be achieved, inter alia, through appropriate conditionality for the disbursement of the assistance. In a larger context, the programme will signal that the EU is ready to support partners in the Eastern neighbourhood, including Ukraine, in moments of economic difficulties.

1.5.3. *Lessons learned from similar experiences in the past*

Macro-financial assistance operations in partners are subject to ex-post evaluation. Evaluations conducted thus far (on completed MFA programmes), conclude that MFA operations do contribute, albeit sometimes modestly and indirectly, to the improvement of the external sustainability, the macroeconomic stability and the achievement of structural reforms in the partner. In most cases, MFA operations had a positive effect on the balance of payments of the partner and helped to relax their budgetary constraints. They also led to somewhat higher economic growth.

The last evaluation carried out for an MFA operation to Ukraine refers to the intervention implemented between 2015 and 2018 (MFA III). The evaluation found that MFA III was highly relevant in terms of its objectives, financial envelope and policy conditions. The operation effectively supported the country's fiscal consolidation and helped Ukraine to improve its balance-of-payments position. MFA III conditionality created a politically reinforcing effect that contributed to the mobilisation of Ukrainian authorities around crucial reforms (namely: public finance management; energy sector; governance and transparency; financial sector). The programme also added value through its confidence-boosting effect on the private sector.

1.5.4. *Compatibility with the Multiannual Financial Framework and possible synergies with other appropriate instruments*

Compatibility with the Multiannual Financial Framework

In the 2021-2027 multiannual financial framework, the provisioining of MFA loans will be covered by the total amount foreseen to provision the External Action Guarantee within the NDICI - Global Europe. The (indicative) lending capacity foreseen for MFA is sufficient to cover this operation as well as other MFA operations being implemented.

Possible synergies with other appropriate instruments

The EU is among the major donors to Ukraine, supporting their economic, structural and institutional reforms as well as civil society. EU financial support to Ukraine over 2015-2021 through Macro-financial Assistance programmes amounted to EUR 5 billion. This MFA programme complements other EU external actions or instruments used to support Ukraine. It is also aligned with the new Global Europe instrument (Neighbourhood, Development and International Cooperation instrument) and the instrument for Pre-accession assistance (IPA-III) for 2021-2027.

The key value added of the MFA in comparison to other EU instruments would be to help create a stable macroeconomic framework, including by promoting a more sustainable balance-of-payments and budgetary situation, and an appropriate framework for advancing structural reforms. MFA does not provide regular financial support and is to be discontinued as soon as the partner's external financial situation has been brought back onto a sustainable path.

MFA would also be complementary to interventions envisaged by the international community, in particular the adjustment and reform programmes supported by the IMF and the World Bank.

1.5.5. Assessment of the different available financing options, including scope for redeployment

By using loans, this MFA operation increases the effectiveness of the EU budget through the leverage effect and provides for the best cost-efficient option.

The Commission is empowered to borrow funds from capital markets on behalf of both the European Union and Euratom using the guarantee of the EU budget. The aim is to obtain funds from the market at the best available rates due to the top credit status (AAA-rated by Fitch, Moody's and DBRS, AA by S&P, all with stable outlook) of the EU/Euratom and then on-lend them to eligible borrowers in the context of lending under the EFSM, BoP, MFA and to Euratom projects. Borrowing and lending is conducted as a back-to-back operation, ensuring that the EU budget does not take any interest rate or foreign exchange risk. The target of obtaining funds at the best available rates for borrowing and lending activities has been achieved because those rates are in line with peer institutions (EIB, EFSM, and ESM).

1.6. Duration and financial impact of the proposal/initiative

X limited duration

- ☐ in effect during a 12 month period starting in 2022
- ☐ Financial impact from 2022 to 2023 for commitment appropriations and from 2022 to 2023 for payment appropriations.

1.7. Management mode(s) planned[13]

X Direct management by the Commission

- **X** by its departments, including by its staff in the Union delegations;
- ☐ by the executive agencies

☐ **Shared management** with the Member States

☐ **Indirect management** by entrusting budget implementation tasks to:

- ☐ third countries or the bodies they have designated;
- ☐ international organisations and their agencies (to be specified);
- ☐ the EIB and the European Investment Fund;
- ☐ bodies referred to in Articles 70 and 71 of the Financial Regulation;
- ☐ public law bodies;
- ☐ bodies governed by private law with a public service mission to the extent that they are provided with adequate financial guarantees;
- ☐ bodies governed by the private law of a Member State that are entrusted with the implementation of a public-private partnership and that are provided with adequate financial guarantees;
- ☐ persons entrusted with the implementation of specific actions in the CFSP pursuant to Title V of the TEU, and identified in the relevant basic act.
- *If more than one management mode is indicated, please provide details in the 'Comments' section.*

Comments

[13] Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: https://myintracomm.ec.europa.eu/budgweb/EN/man/budgmanag/Pages/budgmanag.aspx

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

The actions to be financed under this Decision will be implemented under direct management by the Commission from headquarters and with support of the Union delegations.

This assistance is of macroeconomic nature and its design is consistent with an IMF-supported programme. The monitoring of the action by the Commission services will take place on the basis of the continuous successful implementation of both an IMF programme and the specific reform measures to be agreed with the Ukrainian authorities in a Memorandum of Understanding with a frequency that is consistent with the number of instalments (See also point 1.4.4).

2.2. Management and control system(s)

2.2.1. Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed

The actions to be financed under this Decision will be implemented under direct management by the Commission from headquarters and with support of the Union delegations.

MFA disbursements are dependent on successful reviews, and tied to the fulfilment of conditionality attached to each operation. The implementation of conditions is closely monitored by the Commission, in close coordination with the Union Delegations.

2.2.2. Information concerning the risks identified and the internal control system(s) set up to mitigate them

Risks identified

There are fiduciary, policy and political risks related to the proposed MFA operations.

There is a risk that the MFA could be used in a fraudulent way. As MFA is not designated to specific expenses (contrary to project financing, for example), this risk is related to factors such as the general quality of management systems in the National Bank of Ukraine and the Ministry of Finance, administrative procedures, control and oversight functions, the security of IT systems and the appropriateness of internal and external audit capabilities.

A second risk stems from the possibility that Ukraine will fail to service the financial liabilities towards the EU stemming from the proposed MFA loans (default or credit risk), which could be caused for example by a significant additional deterioration of the balance of payments and fiscal position of the partner.

Another key risk to the operation stems from worsening tensions between Ukraine and Russia, which could have a further negative impact on Ukraine's macroeconomic stability, affecting the performance of the IMF programme and the disbursement and/or repayment of the proposed MFA.

Internal control systems

The macro-financial assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and by the European Court of Auditors as foreseen by Article 129 of the Financial Regulation

Ex-ante: Commission assessment of management and control system in the beneficiary country. For each beneficiary country, an ex-ante operational assessment of the financial circuits and control environment is carried out by the Commission, if necessary, with technical support from consultants. An analysis of accounting procedures, segregation of duties and internal/external audit of the Central bank and the Ministry of Finance are carried out to ensure a reasonable level of assurance for sound financial management. Should weaknesses be identified, they are translated into conditions, which have to be implemented before the disbursement of the assistance. Also, when needed, specific arrangements for payments (e.g. ring-fenced accounts) are put in place.

During implementation: Commission checks of periodic partner declarations. The payment is subject to (1) monitoring by DG ECFIN staff, in close coordination with the EU Delegations and with the external stakeholders, like the IMF, of the implementation of the agreed conditionalities, and (2) the normal control procedure provided for by the financial circuit (model 2) used in DG ECFIN, including the verification by the financial unit of the fulfilment of conditions attached to the disbursement of the assistance mentioned above. The disbursement relating to MFA operations may be subject to additional independent ex-post (documentary and/or on-the-spot) verifications by officials of the ex-post control team of the DG. Such verifications may also be initiated at the request of the responsible AOSD. Interruptions and suspensions of payments, financial corrections (implemented by Commission), and recoveries may be practiced where needed (it has not occurred so far), and are explicitly foreseen in the financing agreements with the partners.

2.2.3. *Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)*

The control systems in place, such as the ex-ante operational assessments or the ex-post assessments, ensured an effective error rate for the MFA payments of 0%. There are no known cases of fraud, corruption or illegal activity. MFA operations have a clear intervention logic, one that allows the Commission to evaluate their impact. The controls enable the confirmation of assurance and of attainment of policy objectives and priorities.

2.3. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures, e.g. from the Anti-Fraud Strategy.

To mitigate the risks of fraudulent use several measures have been and will be taken:

First, the Loan Agreement will comprise a set of provisions on inspection, fraud prevention, audits and recovery of funds in case of fraud or corruption. It is further envisaged that a number of specific policy conditions will be attached to the assistance, including in the area of public finance management, with a view to strengthening efficiency, transparency and accountability. Also, the assistance will be paid to a specific account of the National Bank of Ukraine.

Moreover, in line with the requirements of the Financial Regulation, the Commission services have carried out an Operational Assessment of the financial and administrative circuits of Ukraine to ascertain that the procedures in place for the management of programme assistance, including MFA, provide adequate guarantees. The assessment was carried out in June 2020, and covers areas such as budget preparation and execution, public internal financial control, internal and external audit, public procurement, cash and public debt management, as well as the independence of the central bank. Developments in that area will be further closely monitored by the EU Delegations in the respective partner. The Commission is also using budget support assistance to help the Ukrainian authorities improve their PFM systems, and these efforts are strongly supported by other donors.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and the European Court of Auditors as foreseen by Article 129 of the Financial Regulation.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number	Diff./Non-diff.[14]	from EFTA countries[15]	from candidate countries[16]	from third countries	within the meaning of Article 21(2)(b) of the Financial Regulation
	14.02.01.70.06 [MFA loans – EAG]	Diff.	NO	NO	NO	NO

- New budget lines requested – Not applicable

14 Diff. = Differentiated appropriations / Non-diff. = Non-differentiated appropriations.
15 EFTA: European Free Trade Association.
16 Candidate countries and, where applicable, potential candidates from the Western Balkans.

3.2. Estimated financial impact of the proposal on appropriations

3.2.1. Summary of estimated impact on operational appropriations

– ☐ The proposal/initiative does not require the use of operational appropriations

– **X The proposal/initiative requires the use of operational appropriations, as explained below:**

EUR million (to three decimal places)

Heading of multiannual financial framework	6	Heading 6 - 'Neighbourhood and the World'

DG: ECFIN			Year **2022**	Year **2023**	Year **2024**	Year **2025**	**TOTAL**
• Operational appropriations							
Budget line[17] 14.02.01.70.06 [MFA loans – EAG]	Commitments	(1a)	108.0[18]				**108.0**
	Payments	(2a)				**108.0**	**108.0**
Appropriations of an administrative nature financed from the envelope of specific programmes[19]							
Budget line 14.20.03.01 [MFA Grants]		(3)				0.15	**0.15**
TOTAL appropriations for DG ECFIN	Commitments	=1a+1b +3	108.0				
	Payments	=2a+2b +3				108.0	
• TOTAL operational appropriations	Commitments	(4)	108.0			0.15	**108.15**

17 According to the official budget nomenclature.

18 Amount of the provisioning for MFA loans (9%) to be paid into the Common Provisioning Fund.

19 Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

	Payments	(5)				108.15	**108.15**
• TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)					
TOTAL appropriations under HEADING 6 of the multiannual financial framework	Commitments	=4+ 6	108.0			0.15	**108.15**
	Payments	=5+ 6				108.15	**108.15**

If more than one operational heading is affected by the proposal / initiative, repeat the section above: (EUR million (to three decimal places))

Heading of multiannual financial framework	7	Heading 7 – 'European public administration'

This section should be filled in using the 'budget data of an administrative nature' to be firstly introduced in the Annex to the Legislative Financial Statement (Annex V to the internal rules), which is uploaded to DECIDE for interservice consultation purposes.

DG: ECFIN			Year **2022**	Year **2023**	Year **2024**	Year **2025**	Year	**TOTAL**
Human Resource			0.283	0.141	-	0.024		**0.448**
Other administrative expenditure			-	0.020	-	-		**0.020**
TOTAL appropriations under HEADING 7 of the multiannual financial framework	Appropriations		0.283	0.161	-	0.024		**0.468**
	(Total commitments = Total payments)		0.283	0.161	-	0.024		**0.468**

			Year **2022**	Year **2023**	Year **2024**	Year **2025**	Year	**TOTAL**
TOTAL appropriations under HEADINGS 1 to 7 of the multiannual financial framework (Reference amount)	Commitments	=4+ 6	108.283	0.161	-	0.174		**108.618**
	Payments	=5+ 6	0.283	0.161	-	108.174		**108.618**

3.2.2. *Estimated output funded with operational appropriations*

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs ⇩	Type[20]	Year **2021**		Year **2022**		Year **2023**		Year **2024**		Year **2025**		**TOTAL**	
		Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Total number	Total cost
SPECIFIC OBJECTIVE NO 1[21]													
- Output 1	Grant disbursements												
- Output 2	Provisioning of the External Action Guarantee			2	108.0							2	108.0
- Output 3	Ex-post evaluation									1	0.15	1	0.15
Subtotal for specific objective No 1		-	-	2	108.0			-	-	1	0.15	2	108.15
TOTAL COST		-	-	2	108.0			-	-	1	0.15	2	108.15

20 Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).

21 As described in point 1.4.2. 'Specific objective(s)…'

3.2.3. *Summary of estimated impact on administrative appropriations*

– **X The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:**

EUR million (to three decimal places)

	Year **2022**	Year **2023**	Year **2024**	Year **2025**		**TOTAL**
HEADING 7 of the multiannual financial framework						
Human resources	0.283	0.141	-	0.024		**0.448**
Other administrative expenditure	-	0.020	-	-		**0.020**
Subtotal HEADING 7 of the multiannual financial framework	0.283	0.161	-	0.024		**0.468**
Outside HEADING 7[22] of the multiannual financial framework						
Human resources						
Other expenditure of an administrative nature						
Subtotal outside HEADING 7 of the multiannual financial framework						
TOTAL	0.283	0.161	-	0.024		**0.468**

The appropriations required for human resources and other expenditure of an administrative nature will be met by appropriations from the DG that are already assigned to management of the action and/or have been redeployed within the DG.

22 Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.3.1. Estimated requirements of human resources

– **X The proposal/initiative requires the use of human resources, as explained below:**

Estimate to be expressed in full time equivalent units

		Year **2022**	Year **2023**	Year **2024**	Year **2025**	TOTAL
	• **Establishment plan posts (officials and temporary staff)**					
20 01 02 01 (Headquarters and Commission's Representation Offices)		1.8	0.9	-	0.15	2.85
20 01 02 03 (Delegations)						
01 01 01 01 (Indirect research)						
01 01 01 11 (Direct research)						
Other budget lines (specify)						
	• **External staff (in Full Time Equivalent unit: FTE)**[23]					
20 02 01 (AC, END, INT from the 'global envelope')						
20 02 03 (AC, AL, END, INT and JPD in the delegations)						
XX 01 xx **yy zz** [24]	- at Headquarters					
	- in Delegations					
01 01 01 02 (AC, END, INT - Indirect research)						
01 01 01 12 (AC, END, INT - Direct research)						
Other budget lines (specify)						
TOTAL		**1.8**	**0.9**	**-**	**0.15**	**2.85**

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	Director Dir. D: Supervise and manage the operation, liaise with Council and Parliament for the adoption of the Decision and the approval of the Memorandum of Understanding (MoU), negotiate the MoU with the Ukrainian authorities, review reports, lead missions and assess progress with conditionality compliance. HoU/DHoU Dir. D: Assist the Director in managing the operation, liaising with Council and Parliament for the adoption of the Decision and the approval of the MoU, negotiating with the Ukrainian authorities the MoU and Loan Facility Agreement (together with DG BUDGET), reviewing reports and assessing progress with conditionality compliance. Desk economists, MFA Sector (Dir. D): Prepare the Decision and MoU, liaise with the authorities and the IFIs, conduct review missions, prepare Commission staff reports and Commission procedures related to the management of the assistance, liaise with external experts for the operational assessment and the ex-post evaluation. DG BUDGET (Units E1, E3 under the supervision of the Director): Prepare the Loan

[23] AC= Contract Staff; AL = Local Staff; END= Seconded National Expert; INT = agency staff; JPD= Junior Professionals in Delegations.

[24] Sub-ceiling for external staff covered by operational appropriations (former 'BA' lines).

	Facility Agreement (LFA), negotiate it with the authorities of Ukraine and have it approved by the responsible Commission services and signed by both parties. Follow up the entry into force of the LFA. Prepare the Commission decision(s) on the borrowing transaction(s), follow up the submission of the Request(s) for Funds, select the banks, prepare and execute the funding transaction(s) and disburse the funds to Ukraine. Carry out the back-office activities to follow up the reimbursement of the loan(s). Prepare the corresponding reports on these activities.
External staff	-

3.2.4. *Compatibility with the current multiannual financial framework*

The proposal/initiative:

– **X can be fully financed through redeployment within the relevant heading of the Multiannual Financial Framework (MFF).**

3.2.5. *Third-party contributions*

The proposal/initiative:

– **X does not provide for co-financing by third parties**

3.3. Estimated impact on revenue

– **X The proposal/initiative has no financial impact on revenue.**