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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

Providing exceptional macro-financial assistance to Ukraine

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

The EU's support to Ukraine in the current extraordinary situation is embedded in a strong long-term relationship. Ukraine has been developing a strong partnership with the European Union since 2014, going beyond 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, has been the main tool for bringing Ukraine and the EU closer together.¹ 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 Ukraine's important structural reforms that are crucial for attracting investments, boosting productivity and lifting the standards of living in the medium and longer term. Following the country's application for Union membership, the European Council recognised the European perspective of Ukraine and granted candidate country status, thus cooperation with Ukraine is set to deepen further as the country moves forward in its European path.

The long-term economic development and the reform orientation of Ukraine have been facing a tremendous challenge since Russia invaded the country on 24 February 2022 in an unprecedented act of unjustified and unprovoked aggression. In addition to the immense human suffering, the on-going war in Ukraine has caused already tremendous damage to the physical infrastructure (roads, bridges, factories, etc.) and to the residential and communal buildings (housing units, schools, hospitals, etc.). The fighting has also caused a massive human exodus, with more than 6 million internally displaced persons and more than 7 million refugees.

In addition to inflicting tremendous damage to the economy, Russia's war of aggression against Ukraine has caused the sovereign to lose access to the international capital markets. The resulting underlying balance-of-payments funding gap is estimated by the authorities and the IMF to reach around USD 39 billion for the whole of 2022. In the IMF's own assessment, Ukraine could finance, through a safe draw-down on its official international reserves that would not threaten its macro-financial stability, USD 9 billion of this gap.² Bilateral and multilateral commitments of financial support pledged to Ukraine in the context of the G7 Finance Ministers and Central Bank Governors meeting on 18 to 20 May have reached almost USD 20 billion. Germany provided a grant for direct budgetary support of EUR 1 billion. Further commitments by EU member states include EUR 200 million by Italy and EUR 190 million by France. In order to make a contribution toward financing the remaining estimated funding gap of Ukraine for the whole of 2022 of about USD 10 billion, the Commission intends to present a proposal for an exceptional MFA operation of up to EUR 9 billion to Ukraine.

In order to address the immediate and most urgent funding needs of Ukraine, as a first step, the Commission is submitting to the European Parliament and the Council this proposal for a decision to provide additional MFA of up to EUR 1 billion to Ukraine, in the form of a highly

¹ Ukraine applied officially for EU membership on 28 February 2022, four days after the Russian invasion, and was granted candidate country status in late June 2022.

² As confirmed by the IMF to the European Commission in an assessment letter received on 3 June 2022.

concessional long-term loan. As a second step, the Commission intends to present as soon as possible the remainder of this highly exceptional package, given its nature and size. It responds therefore to the European Council's call from 23-24 June for a swift proposal. Together with the emergency MFA of EUR 1.2 billion disbursed earlier this year,³ the total macro-financial support from the EU to Ukraine since the start of the war would reach EUR 2.2 billion and could reach up to EUR 10 billion once the whole exceptional MFA to Ukraine becomes operational.⁴ This financial assistance comes in addition to many other types of support, notably humanitarian, development and defence assistance, the suspension of all import duties on Ukrainian exports for one year or other solidarity initiatives, e.g. to address transport bottlenecks so that exports, in particular of grains, could be ensured.

This additional MFA, of up to EUR 1 billion, is seen as the first part and the Commission intends to come forward with a proposal for the second part of the exceptional MFA as soon as feasible. This first part of the exceptional MFA aims to provide swift financial support in a situation of acute funding needs and to ensure the continued functioning of the most critical functions of the Ukrainian state. It will have an availability period of one year and will be disbursed as a single instalment, which may be split into one or more tranches. A Memorandum of Understanding (henceforth "MoU"), to be agreed with the Ukrainian authorities, will condition the release of the instalment and the assistance. This MoU will include enhanced transparency and reporting on the use of funds and will define the setting-up of reporting requirements to which this MFA will be linked. The policy actions to improve the country's resilience and stability, in the area of governance and rule of law, and in the energy sector from the EUR 1.2 billion emergency MFA, disbursed in March and May 2022, that have not been completed due to reasons of *force majeure*, could then also be considered. The implementation of this MFA, as the first part of the announced exceptional MFA in the 'Ukraine relief and reconstruction' communication, is expected to go hand-in-hand with humanitarian aid and support financed by the Neighbourhood, Development and International Cooperation Instrument - Global Europe (NDICI-GE).⁵ Moreover, it is part of the extraordinary international effort by bilateral donors and international financial institutions to support Ukraine at this critical juncture.

The proposed instalment of EUR 1 billion will be supported by provisions available from the EU budget for the External Action Guarantee established under the NDICI-GE. These provisions equip the EU with resources to repay investors in bonds that have been used to finance the MFA loans in the event that a beneficiary country fails to honour its repayment commitments to the EU. The current MFF foresees a general MFA programme of approximately EUR 11 billion in loans, overall, which are provisioned at the rate of 9%. On this basis, EUR 1 billion in provisions have been earmarked in the financial programming provisions for MFA loans to third countries under the current MFF. The provisioning should be financed within the limits set in Article 31(5), second subparagraph of Regulation (EU) 2021/947. This provisioning will provide the budgetary means which will underpin the proposed loan to Ukraine.

³ Council Implementing Decision, 28.03.22.

⁴ Prior to the extraordinary MFA support since 2022, the EU has assisted Ukraine through five consecutive Macro-Financial Assistance (MFA) operations that provided EUR 5.0 billion of loans in the period between 2014 and 2021.

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/Union of the European Parliament and of the Council and repealing Regulation (EU) 2017/1601 of the European Parliament and of the Council and Council Regulation (EC, Euratom) No 480/2009 (Text with EEA relevance), OJ L 209, 14.6.2021, p. 1.

However, taking into account the recent dramatic and unforeseeable developments in Ukraine, the provisioning rate of 9% generally applied to countries addressing a balance-of-payment crisis is not adequate in the present instance. This proposal envisages a coverage rate of 70% through paid-in provisions under the Union budget. This exceptionally high rate of provisioning is deemed sufficient to contain the risk implied by this additional MFA to Ukraine, in line with the principles of sound financial management. Application of this 70% provisioning rate to the foreseen loan programme of up to EUR 1 billion in the form of a loan implies that an amount of EUR 700 million, already available under this MFF for macro-financial assistance to third countries, will be used as a cushion against potential losses on this new loan. That provisioning rate would apply instead of the general rule set out in Article 31(5), third subparagraph of Regulation (EU) 2021/947.

Recognising the extremely challenging situation Ukraine is facing, to limit the impact on fiscal sustainability from this loan, it is also proposed that the EU budget exceptionally assumes the interest rate costs arising from the proposed macro-financial assistance of up to EUR 1 billion, in the form of a loan. This way, the EU will provide additional financial relief to Ukraine, which contributes to improving its public debt sustainability. The Commission will arrange a loan with a long maturity in order to provide as long a period as possible for Ukraine to return to growth, reconstruct its economy in line with its European aspirations and maximise the chances of full repayment.

Upon adoption of this proposal, and completion of all related formalities (signature of the Memorandum of Understanding, entry into force of the Loan Agreement), the Commission will arrange this loan as a matter of urgency, reflecting the needs of Ukraine. The Commission will take forward the preparations for the organisation of the remaining package of the exceptional MFA loans as expeditiously as possible.

- **General context**

The economic situation of Ukraine has deteriorated dramatically following Russia's war of aggression. Ukraine's GDP is unofficially estimated to have decreased by 35-40% in March-April year-on-year. Inflation increased to 18.0% year-on-year in May. The National Bank of Ukraine (NBU) suspended the inflation-targeting framework for the duration of the conflict and kept its main refinancing rate at 10% until 3 June, when it raised it to 25% to discourage the demand for foreign exchange that started to build up in the second part of May. It also promised to acquire government war bonds in case of insufficient private demand and actually purchased the equivalent of around USD 4.1 billion of these bonds. Part of the subsequent monetary budget financing was, however, absorbed by NBU FX sale interventions, which account for an aggregate decline of the official international reserves by around USD 4 billion between late January and end-May to USD 25.1 billion.

Russia's war of aggression triggered sizable funding needs for the Ukrainian budget that reflect into a substantial external funding gap. On the one hand, the war resulted in a significant contraction of public revenues, even though some of it is policy-driven as a relief measure for SMEs (VAT moratoria, exemption from customs duties). On the other hand, expenditure increased substantially to cover Ukraine's exceptional military and humanitarian needs, including social support to the internally displaced persons and a higher wage defence bill. The resulting overall balance-of-payments funding gap is estimated by the authorities and the IMF to reach around USD 39 billion for the whole of 2022. In IMF's assessment, Ukraine could finance, through a safe draw-down on its official international reserves that would not

threaten its macro-financial stability, USD 9 billion of this gap.⁶ Bilateral and multilateral commitments of financial support to Ukraine pledged in the context of the G7 Finance Minister and Central Bank Governors meeting on 18 to 20 May have reached almost USD 20 billion. Germany provided a grant for direct budgetary support of EUR 1 billion. Further commitments by EU member states include EUR 200 million by Italy and EUR 190 million by France. In order to make a sizable contribution toward financing the remaining estimated funding gap of Ukraine for the whole of 2022 of about USD 10 billion, the Commission intends, in particular as called upon by the European Council of 23 and 24 June, to provide exceptional MFA of up to EUR 9 billion to Ukraine, in the form of highly concessional long-term loans. In order to address the immediate and most urgent funding needs of Ukraine, the current proposal for additional MFA of up to EUR 1 billion in the form of a loan is the first part. The Commission intends to come forward shortly with an appropriate proposal concerning the rest of the exceptional MFA to Ukraine. It aims at contributing to financing the most urgent and immediate funding needs of Ukraine, while taking into account the current availabilities under the Union's budget. The sizable contributions by international donors to the financing of the overall balance-of-payments funding gap of Ukraine could limit the adverse inflationary and overall destabilizing impact that would ensue if it were financed in full through money printing by the NBU.

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

This proposal for macro-financial assistance to Ukraine follows the Decision (EU) 2022/313 on providing macro-financial assistance to Ukraine in the amount of EUR 1.2 billion in loans, which was fully disbursed in two tranches in March and May 2022. This additional MFA as a first stage of the implementation of the planned exceptional MFA, reinforces actions by the Union for direct humanitarian, development and defence support, as well as Union's initiatives to coordinate multilateral actions, such as the "Stand-up for Ukraine".

- **Consistency with other Union policies**

The provision of further support to Ukraine in the form of a highly concessional long term loan, at this juncture, can assist the Ukrainian authorities in overcoming significant funding challenges arising from the conduct and impact of the Russian war of aggression. Moreover, by supporting the authorities' efforts to maintain a stable macro-financial environment, the proposed MFA 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 MFA is part of the EU's relief and reconstruction initiative for Ukraine and is an integral part of the overall international support for Ukraine.⁷

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

Article 212 TFEU constitutes an appropriate legal basis in respect of financial assistance to third countries.

⁶ As confirmed by the IMF to the European Commission in an assessment letter received on 3 June 2022.

⁷ As presented in the 18 May Communication by the Commission, https://ec.europa.eu/info/sites/default/files/ukraine-relief-reconstruction_en.pdf.

The unprovoked and unjustified military aggression by Russia requires granting of additional financial assistance to Ukraine. To reinforce the budgetary sustainability of these measures, it is also necessary to increase the coverage rate of the additional MFA loan to 70% through paid-in provisions under the Union budget.

- **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 effectiveness of the assistance, whilst limiting the burden on the administrative capacity of Ukrainian authorities, which is very stretched in the current circumstances.

- **Proportionality**

The proposal complies with the proportionality principle: it confines itself to the minimum required in order to achieve the objectives of maintaining 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 by the authorities and confirmed by the IMF⁸, together with the forthcoming remainder of the planned exceptional MFA, the amount of the proposed MFA of up to EUR 1 billion corresponds to close to half of the estimated residual funding gap for 2022. 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 be neither suitable nor sufficient to address the broader macro-financial objectives of this MFA, nor the proposal of the overall planned exceptional MFA. The key value added of the MFA in comparison to other EU instruments is to alleviate the external financial constraints swiftly and to help ensure a continued stable macro-financial framework, including by promoting a sustained and sustainable balance of payments and budgetary situation, within an appropriate framework for reporting requirements. By helping to ensure an appropriate overall policy framework, MFA can increase the effectiveness of the actions financed in Ukraine under other, more narrowly-focused EU financial instruments. By setting up the operation in a highly concessional manner, with longer maturities and a subsidy to cover interest costs, the impact on the country's debt sustainability is lessened. Swiftly providing the much needed and very sizeable amount of financial support through the MFA's highly concessional set-up for loans therefore appears warranted, notably in view of limits the international community, including the EU, faces to provide substantial grant financing.

⁸ As confirmed by the IMF to the European Commission in an assessment letter received on 27 May 2022.

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

- **Ex-post evaluations/fitness checks of existing legislation**

Past ex-post evaluations of previous MFA operations to Ukraine have shown that in general they were highly relevant in terms of its objectives, financial envelope and policy objectives.

They proved crucial to support Ukraine in addressing its balance-of-payment problems and implementing key structural reforms to stabilise the economy and enhance the sustainability of its external position. They allowed for fiscal savings and financial benefits, and acted as catalyst for additional financial support and investor confidence. The MFA conditionality package was fully aligned with the related IMF programme and created a politically reinforcing effect that contributed to the mobilisation of Ukrainian authorities around essential reforms, especially in areas not covered by other international donor programmes.

- **Stakeholder consultations**

This exceptional MFA is provided as an integral part of the international support to Ukraine. In the preparation of this proposal, the Commission services have consulted with the IMF, the World Bank and other bilateral and multilateral donors, with significant macro-financial expertise, including as regards the Ukrainian economy. The Commission has also been in regular contact with the Ukrainian authorities.

- **Collection and use of expertise**

Commission services have based this proposal on a careful analysis, conducted in cooperation with the IMF and the competent international institutions, of the financial needs and broader macro-financial situation of Ukraine.

Commission services have also engaged in discussions with their counterparts in the risk departments of international financial institutions having extensive exposures in Ukraine. The purpose of these discussions has been to understand how those institutions will provision for and manage their exposures to Ukraine. These discussions have revealed the extent to which the institutional approach of each institution depends on how its balance-sheet is exposed to the impact of losses on the Ukrainian exposures. Some institutions benefit from full or partial counter-guarantees against their exposure or benefit from other forms of safeguard (reserves held by Ukraine at the IMF). The situation of the EU, which has financed macro-financial assistance loans through back-to-back lending, means that it is in the unique situation of having to ensure a steady and predictable stream of payments to its bond-investors according to a fixed and regular schedule in the event of missed payment flows from the loan beneficiaries. In order to be able to provide this additional MFA swiftly, as a first step in the organisation of the full exceptional MFA package and on a secure budgetary footing, the Union needs to apply a provisioning rate of 70% to this additional exposure to Ukraine.

In line with the requirements of the Financial Regulation, the Commission services will carry out during the implementation of the assistance 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, also taking account the exceptional circumstances of the war. This will allow to update previous assessment, which concluded 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.

- **Impact assessment**

The Union's macro-financial assistance is an exceptional emergency instrument aimed at addressing severe balance-of-payment difficulties in third countries. Given the specific context and urgency, 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. This MFA will help alleviate the short-term funding needs of Ukraine in the current extraordinary circumstances. The reporting requirements to be agreed in the MoU aim to ensure the efficiency, transparency, and accountability of the support. This additional MFA, and the subsequent part of the exceptional MFA, should build upon the achievements of the six MFA programmes since 2015, including the latest COVID-19 and the early 2022 emergency MFA assistance.

The proposal was not supported by an Impact Assessment. The application of a 70% provisioning rate follows a thorough financial risk assessment of outstanding liabilities.

- **Regulatory fitness and simplification**

The proposal is not linked to regulatory fitness and simplification.

- **Fundamental rights**

Countries that are covered by the European Neighbourhood Policy (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 emergency 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. Similarly, the efforts deployed to underpin their application for an EU membership, notably through providing elaborated answer to two very comprehensive and detailed questionnaires, send a clear sign of the authorities' willingness to follow, and deliver upon, the European aspirations of Ukraine. Since the Russian aggression, the Ukrainian authorities have shown an impressive degree of resilience and have remained 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 at present.

4. BUDGETARY IMPLICATIONS

The funds for this up to EUR 1 billion additional MFA to Ukraine will be borrowed in the capital markets and on-lent to Ukraine. The elevated provisioning at a rate of 70%, that is needed to reflect the higher risks associated with this loan shall be applied, which deviates from Article 31(5), third subparagraph of Regulation (EU) 2021/947. The relevant provisions will be earmarked under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe), for a total amount of EUR 700 million (budget line 14 02 01 70 "NDICI – Provisioning of the Common Provisioning Fund").

In line with the principles of sound financial management, the budgetary protection through the increased provisioning rate of 70% is necessary to reflect the more acute risks of losses on this loan compared to traditional MFA assistance to countries addressing a balance-of-payment crisis and that typically comes on top of a disbursing IMF programme. This level of provisioning provides a high level of confidence that any amounts owed to investors that buy the bonds, used to finance the new loan, will be repaid in full and on time. The increased provisioning rate will be an appropriate response to the accounting losses on any unpaid loans that are to be recognised by the EU budget. In the event of non-payment by a beneficiary, the Union accounts must recognise a loss for the full amount of the loan in accordance with the international financial standards applicable to the Union budget accounts (IPSAS). Given the increased provisioning rate for the macro-financial assistance, it is appropriate to cover the financial liability from the macro-financial assistance under this Decision separately from other financial liabilities under the External Action Guarantee. In particular, it is appropriate to use the provisioning set aside in the Common Provisioning Fund in respect of this macro-financial assistance solely for financial liabilities under this Decision, instead of applying the general rule set out in Article 31(6) of the Regulation (EU) 2021/947 and not to apply the effective provisioning rate, instead of applying the general rule set out in Article 213 of the Financial Regulation. In addition, an interest rate subsidy should be exceptionally provided as described below, to be borne by the envelope referred to in the first indent of point (a) of Article 6(2) of Regulation (EU) 2021/947 during the period of the MFF 2021-27. The administrative costs related to the borrowing and lending would be waived and thus not recovered from Ukraine. They will be borne under the respective administrative budget lines.

5. OTHER ELEMENTS

• Implementation plans and monitoring, evaluation and reporting arrangements

As a first stage of the implementation of the full exceptional MFA to Ukraine, the European Union shall make this additional MFA under this Decision available to Ukraine for a total amount of up to EUR 1 billion, in the form of a long-term loan. This assistance, which is planned to be disbursed as a single instalment, which may be split into one or more tranches, will contribute to covering the residual external funding gap of Ukraine in 2022. The release of the single instalment would occur swiftly after the approval of this proposal and the entry into force of the corresponding MoU that will indicate the setting-up of reporting requirements.

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 will work closely with the international financial institutions and the national authorities to monitor relevant developments and the application of the requirements and conditions as agreed in the MoU.

• Explanatory documents (for directives)

Not applicable

• Detailed explanation of the specific provisions of the proposal

The decision lays down the rules for the macro-financial assistance.

Article 1 presents the main features of this macro-financial assistance.

Article 2 provides for compliance with the political preconditions necessary for the disbursement of the macro-financial assistance.

Article 3 provides for clearly defined reporting and monitoring requirements that shall be set out in a Memorandum of Understanding.

Article 4 provides for the conditions necessary for the disbursement of this macro-financial assistance.

Article 5 presents the rules for the borrowing and lending operations.

Article 6 requires an operational assessment by the European Commission, during the implementation of the MFA.

Article 7 provides for specific rules on the provisioning to be held in the Common Provisioning Fund.

Article 8 stipulates that a Committee shall assist the Commission, in accordance with Comitology procedures.

Article 9 presents the reporting obligations of the Commission before the European Parliament and the Council, during the implementation of this macro-financial assistance to Ukraine.

Article 10 clarifies the terms of the entry into force of this macro-financial assistance.

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

Providing exceptional 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 procedure⁹,

Whereas:

- (1) An association agreement between the Union and Ukraine¹⁰ (the ‘Association Agreement’), including a Deep and Comprehensive Free Trade Area (DCFTA), entered into force on 1 September 2017. Given that the European Council of 23 June decided to recognise the European perspective of Ukraine and to grant Ukraine the candidate country status, it should be considered to be eligible to receive macro-financial assistance from the Union.
- (2) In spring 2014, Ukraine embarked on an ambitious reform programme with the aim of stabilising its economy and improving 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 those reforms was supported by six consecutive macro-financial assistance programmes, under which Ukraine has received assistance in the form of loans for a total of EUR 6.2 billion. The latest emergency macro-financial assistance, which was made available in the context of mounting tensions at the border with Russia pursuant to Decision (EU) 2022/313 of the European Parliament and of the Council¹¹ provided EUR 1.2 billion in loans to Ukraine, disbursed in two instalments of EUR 600 million in March and May 2022.
- (3) Russia’s unprovoked and unjustified military aggression against Ukraine that started on 24 February 2022 and the ongoing war since then have caused a loss of market access and a drastic drop in public revenues, while public expenditures to address the humanitarian situation and to maintain continuity of state services have increased markedly. In this very uncertain and volatile situation, the best estimates of Ukraine’s funding needs by the International Monetary Fund point to an extraordinary funding gap of around USD 39 billion in 2022 of which around half could be met if the

⁹ Position of the European Parliament of 16 February 2022 (not yet published in the Official Journal) and decision of the Council of 21 February 2022.

¹⁰ Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Ukraine, of the other part ([OJ L 161, 29.5.2014, p. 3](#)).

¹¹ Decision (EU) 2022/313 of the European Parliament and of the Council of 24 March 2022 on providing macro-financial assistance to Ukraine ([OJ L 55, 28.2.2022, p. 4](#)).

international support pledged thus far would be fully disbursed. The swift provision by the Union of this first macro-financial assistance to Ukraine, as a first stage of the implementation of the full exceptional MFA, is, under the current extraordinary circumstances, considered to be an appropriate short-term response to the immediate most urgent funding needs of Ukraine and to the sizeable risks to the macro-financial stability of the country. The Union's macro-financial assistance would support Ukraine's macro-financial stabilisation and strengthen the resilience of the country, thereby contributing to the public debt sustainability of Ukraine and its ability to ultimately be in a position to repay its financial obligations.

- (4) The determination of the amount of the Union's macro-financial assistance under this Decision, while also taking into account the future complete exceptional MFA, is based on a quantitative assessment of Ukraine's residual external funding needs, conducted in cooperation with the International Monetary Fund and other international financial institutions, and takes into account its capacity to finance itself with its own resources. This determination also takes into account expected financial contributions from bilateral and multilateral donors, 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. The Ukrainian authorities' commitment to close cooperation with the IMF on the design and implementation of short-term emergency measures and their intent to work with the IMF on an appropriate economic programme when conditions permit should be acknowledged. The Union's macro-financial assistance should aim to maintain macro-financial stability and resilience under the war circumstances. The Commission should ensure that the Union's macro-financial assistance is legally and substantially in accordance with the key principles and objectives of the measures taken within the different areas of external action and other relevant Union policies.
- (5) The Union's macro-financial assistance should support the Union's external policy towards Ukraine. The Commission services and the European External Action Service should work closely together throughout the macro-financial assistance operation in order to coordinate, and ensure the consistency of, Union external policy.
- (6) A precondition 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. The ongoing war conditions, and in particular the current martial law, should not encroach on these principles, despite the concentration of power in the executive branch.
- (7) In order to ensure that the Union's financial interests linked to the Union's exceptional 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 that assistance. In addition, provision should be made for the Commission to carry out checks, for the Court of Auditors to carry out audits and for the European Public Prosecutor's Office to exercise its competences.
- (8) The Union's additional macro-financial assistance, as a first stage of the implementation of the planned exceptional macro-financial assistance to Ukraine, should be linked to reporting requirements, to be set out in a memorandum of understanding (MoU). The more stringent reporting requirements should aim, under the current war circumstances, to ensure the efficiency, transparency and

accountability for the use of the funds. Policy conditionality, which should aim to strengthen the immediate resilience of the country and its longer-term debt sustainability, thereby reducing risks linked to the repayment of its outstanding and future financial obligations, will be attached to future MFA operations.

- (9) 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.¹²
- (10) The macro-financial assistance of up to EUR 1 billion under this Decision constitutes a financial liability for the Union within the overall volume of the External Action Guarantee.
- (11) In accordance with Article 210(3) of the Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council (the ‘Financial Regulation’) the contingent liabilities arising from budgetary guarantees or financial assistance borne by the budget are to be deemed sustainable, if their forecast multiannual evolution is compatible with the limits set by Council Regulation (EU), Euratom 2020/2093¹³ laying down the multiannual financial framework provided for in Article 312(2) TFEU and the ceiling on annual payment appropriations set out in Article 3(1) of Council Decision 2014/335/EU, Euratom¹⁴. In order to enable the Union to provide substantial support to Ukraine through MFA in a financially safe manner, while preserving the high credit standing of the Union and, hence, its capacity to deliver effective financing in the context of both its internal and external policies, it is essential to adequately protect the Union budget from the materialization of those contingent liabilities and to ensure they are financially sustainable in the meaning of Article 210(3) of the Financial Regulation.
- (12) In accordance with the principle of sound financial management it is necessary, before proceeding with the provision of additional macro-financial assistance loans to Ukraine, to reinforce the resilience of the Common Provisioning Fund with means commensurate to the risks arising from the contingent liabilities linked to this macro-financial assistance to Ukraine. Without such a reinforcement, the Union budget would not be able to provide, on financially safe grounds, this assistance that the war-related needs of Ukraine command. To protect the Union budget, based on the assessment at the current juncture the envisaged coverage for the full exceptional MFA loans of up to EUR 8.8 billion to Ukraine, including this instalment of EUR 1 billion, should be at 70% of the loan value.
- (13) On this basis, the provisioning rate for this loan of EUR 1 billion should be set at 70% instead of applying the general rule set out in Article 31(5), third subparagraph of Regulation (EU) 2021/947 of the European Parliament and of the Council.¹⁵ The

¹² 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).

¹³ Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027 (OJ L 433I, 22.12.2020, p. 11).

¹⁴ Council Decision 2014/335/EU, Euratom of 26 May 2014 on the system of own resources of the European Union (OJ L 168, 7.6.2014, p. 105).

¹⁵ 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/Union of the European Parliament and of the Council

corresponding amount of EUR 700 million should be financed from the geographic envelope under Regulation (EU) 2021/947. This amount should be committed and paid into a dedicated compartment of the Common Provisioning Fund in the period up to 2027.

- (14) Given the increased provisioning rate for this instalment of macro-financial assistance, it is appropriate to manage the financial liability from the macro-financial assistance under this Decision separately from other financial liabilities under the External Action Guarantee. It is moreover proposed to use the provisioning set aside in the Common Provisioning Fund in respect of this macro-financial assistance solely for financial liabilities under this Decision, instead of in accordance with the general rule set out in Article 31(6) of Regulation (EU) 2021/947. This should be followed by exclusion of the provisioning set aside in respect of this macro-financial assistance from the application of the effective provisioning rate implemented in accordance with Article 213 of the Financial Regulation.
- (15) Since the objective of this Decision, namely to provide additional macro-financial assistance to Ukraine with a view to supporting, in particular, its economic resilience and stability, 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(3) of the Treaty on European Union (TEU). In accordance with the principle of proportionality, as set out in paragraph 4 of that Article, this Decision does not go beyond what is necessary to achieve that objective.
- (16) In view of the urgency entailed by the exceptional circumstances caused by Russia's unprovoked and unjustified military aggression, it is considered 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.
- (17) Given the difficult situation of Ukraine caused by Russia's war of aggression and to support it on its long-term stability path, it is appropriate to derogate from Article 220(5), point (e) of the Financial Regulation and to allow that the Union has the possibility to cover the interest rate costs related to this loan and waive to Ukraine the administrative costs. The interest rate subsidy should be exceptionally granted as an instrument deemed appropriate to ensure the effectiveness of the support within the meaning of Article 220(1) of the Financial Regulation and should be borne by the Union's budget. During the period of the MFF 2021-27 it should be borne by the envelope referred to in the first indent of Article 6(2), point (a) of Regulation (EU) 2021/947. The interest rate subsidy and the waiver of administrative costs could be requested by Ukraine every year by the end of March. To allow for flexibility in the repayment of the principal, it should also be possible to roll over the associated borrowings contracted on behalf of the Union, by derogation from Article 220(2) of the Financial Regulation.
- (18) Given the urgent situation in Ukraine this Decision should enter into force the day following that of its publication in the Official Journal of the European Union.

and repealing Regulation (EU) 2017/1601 of the European Parliament and of the Council and Council Regulation (EC, Euratom) No 480/2009 (Text with EEA relevance), OJ L 209, 14.6.2021, p. 1.

HAVE ADOPTED THIS DECISION:

Article 1

1. The Union shall make available to Ukraine macro-financial assistance for a maximum amount of EUR 1 000 million (the ‘Union’s macro-financial assistance’), in accordance with paragraph 3, with a view to supporting Ukraine’s macro-financial stability. The Union’s macro-financial assistance shall be provided to Ukraine in the form of a loan.
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 in the capital markets or from financial institutions and to on-lend them to Ukraine. The loan shall have a maximum average maturity of 25 years.
3. The envelope referred to in Article 6(2), point (a), first indent of Regulation (EU) 2021/947 shall be used to cover the costs of interest payments related to the macro-financial assistance during the period of 2021-27 MFF as interest rate subsidy referred to in Article 5(2) of this Decision.
4. 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 Commission and Ukraine in the Memorandum of Understanding (‘MoU’) referred to in Article 3(1).
5. 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.
6. The Union’s macro-financial assistance shall be made available starting on the first day after the entry into force of the MoU referred to in Article 3(1) and during an availability period of one year.
7. If 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 shall reduce the amount of the assistance, suspend it or cancel it.

Article 2

1. A precondition 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 the precondition set out in paragraph 1 throughout the life-cycle of the Union’s macro-financial assistance, in particular before disbursements are made, also taking into account the circumstances on the ground and the consequences of the application of martial law.

3. Paragraphs 1 and 2 of this Article shall apply in accordance with Council Decision 2010/427/EU.¹⁶

Article 3

1. The Commission shall agree with Ukraine on clearly defined reporting requirements to which the Union's macro-financial assistance is to be linked. The reporting requirements shall be set out in a MoU and adopted in accordance with the examination procedure referred to in Article 8(2).
2. The reporting requirements shall ensure, in particular, the efficiency, transparency and accountability of the use of the Union's macro-financial assistance. The Commission shall regularly monitor the implementation of these reporting requirements.
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, the implementation of the macro-financial assistance, and notably of the reporting requirements agreed in the MoU. The Commission shall inform the European Parliament and the Council about the results of that verification.

Article 4

1. Subject to the requirements referred to in paragraph 3, the Union's macro-financial assistance shall be made available by the Commission in a single instalment, in the form of a loan. The Commission shall decide on the timeframe for the disbursement of the instalment. The instalment may be disbursed in one or more tranches.
2. The Commission shall decide on the release of the instalment subject to its assessment of the following requirements:
 - (a) respect for the precondition set out in Article 2(1);
 - (b) entry into force of the MoU, which shall provide for the setting-up of a reporting system applicable during the entire period of the loan.
3. Where the requirements set out in paragraph 3 are not met, the Commission shall temporarily suspend or cancel the disbursement of the Union's macro-financial assistance, or take appropriate measures pursuant to the loan agreement. In such cases, it shall inform the European Parliament and the Council of the reasons for the suspension or cancellation.
4. The Union's macro-financial assistance shall in principle be disbursed to the National Bank of Ukraine. Subject to the provisions to be agreed in the MoU, including a confirmation of residual budgetary financing needs, the Union funds may be disbursed to the Ukrainian Ministry of Finance as the final beneficiary.

¹⁶ 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).

Article 5

1. The borrowing and lending operations shall be carried out in accordance with Article 220 of the Financial Regulation.
2. By derogation from Article 220(5), point (e) of the Financial Regulation, the Union may bear interests by granting an interest rate subsidy and administrative costs related to the borrowing and lending, with the exception of costs related to early repayment of the loan, in respect of the loan under this Decision.
3. Ukraine may request the interest rate subsidy and coverage of the administrative costs by the Union by the end of March of each year.
4. Where necessary, by derogation from Article 220(2) of the Financial Regulation, the Commission may roll over the associated borrowings contracted on behalf of the Union.
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

During the implementation of the macro-financial assistance, the Commission shall re-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. For the macro-financial assistance provided in the form of a loan under this Decision, provisioning rate of 70% shall apply instead of the general rule set out in Article 31(5), third subparagraph of Regulation (EU) 2021/947.
2. Instead of the general rule set out in Article 31(6) of Regulation (EU) 2021/947, the financial liabilities from the macro-financial assistance provided in the form of a loan under this Decision shall be covered separately from other financial liabilities under the External Action Guarantee and the provisioning set aside in the Common Provisioning Fund in respect of the macro-financial assistance provided in the form of a loan under this Decision shall be used solely for the financial liabilities derived therefrom.
3. By way of derogation from Article 213 of the Financial Regulation, the effective provisioning rate shall not apply to the provisioning set aside in the Common Provisioning in respect to the macro-financial assistance provided in the form of a loan under this Decision.

Article 8

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 9

1. By 30 June of each year, the Commission shall submit to the European Parliament and to the Council, as part of its Annual Report, an assessment of the implementation of Chapter I of this Decision in the preceding year, including an evaluation of that implementation. That report shall:
 - (a) examine the progress made in implementing the Union's macro-financial assistance;
 - (b) assess the economic situation and prospects of Ukraine, as well as the implementation of the requirements and conditions referred to in Article 3(1);
 - (c) indicate the connection between the requirements and conditions set out in the MoU, Ukraine's ongoing macro-financial situation and the Commission's decision to release the instalment of the Union's macro-financial assistance.
2. Not later than two years after the end of the availability period, 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 10

This Decision shall enter into force on the day following that of 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 macro-financial assistance to Ukraine.

1.2. Policy area(s) concerned in the ABM/ABB structure¹⁷

Policy area: Economic and Financial Affairs

Activity: International economic and financial affairs

1.3. The proposal/initiative relates to:

- ☐ a new action
- ☐ a new action following a pilot project/preparatory action¹⁸
- ☐ the extension of an existing action
- ☐ a merger or redirection of one or more actions towards another/a new action

1.4. Objective(s)

1.4.1. General objective(s)

“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

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.

- Provide macro-financial assistance to Ukraine with a view to supporting its economic resilience and stability under the war circumstances.

¹⁷ ABM: activity-based management; ABB: activity-based budgeting.

¹⁸ As referred to in Article 58(2)(a) or (b) of the Financial Regulation.

- Contribute to covering the external funding needs of Ukraine for 2022, in the context of a significant deterioration of their external accounts brought about by the unprovoked and unjustified Russian invasion of Ukraine.
- Alleviate the partner's budgetary financing needs.
- 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 on the reporting requirements included in the MoU.

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.

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 release of the last instalment.

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 listed in a Memorandum of Understanding between the Commission and the authorities of Ukraine. The assistance is planned to be disbursed in a single instalment. The release of the instalment would occur swiftly after the approval of this proposal and the entry into force of the corresponding MoU.

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 reporting requirements. The Commission will work closely with the international financial institutions and the national authorities to monitor relevant developments and the application of the requirements and conditions as agreed in the MoU.

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.

This proposal for macro-financial assistance of up to EUR 1 billion to Ukraine follows the Decision (EU) 2022/313 on providing macro-financial assistance to Ukraine in the amount of EUR 1.2 billion in loans, which was fully disbursed in two instalments in March and May 2022. This MFA reinforces also actions by the Union for direct humanitarian, economic and defence support, as well as Union's initiatives to coordinate multilateral actions, such as the "Stand-up for Ukraine". By its very nature, MFA is also a catalyst for reforms that strengthen the short-term resilience of the country and are also conducive to enhanced longer-term stability. These expected outcomes are particularly relevant for Ukraine at this critical moment.

The provision of further support to Ukraine in the form of loans, at this juncture, can assist the Ukrainian authorities in overcoming the immediate and most urgent funding challenges arising from the conduct of the war. Moreover, by supporting the authorities' efforts to maintain a stable macro-financial environment, the proposed MFA 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.

Project finance or technical assistance would be neither suitable nor sufficient to address the broader macro-financial objectives of this exceptional MFA. The key value added of the MFA in comparison to other EU instruments is to alleviate the external financial constraints swiftly and to help ensure a continued stable macro-financial framework, including by promoting a sustained and sustainable balance of payments and budgetary situation, within an appropriate framework for reporting requirements. By helping to ensure an appropriate overall policy framework, MFA can increase the effectiveness of the actions financed in Ukraine under other, more narrowly-focused EU financial instruments.

1.5.3. Lessons learned from similar experiences in the past

Macro-financial assistance operations in partners are subject to ex-post evaluation. Past ex-post evaluations of previous MFA operations to Ukraine have shown that in general they were highly relevant in terms of its objectives, financial envelope and policy objectives.

They proved crucial to support Ukraine in addressing its balance-of-payment problems and implementing key structural reforms to stabilise the economy and enhance the sustainability of its external position. They allowed for fiscal savings and financial benefits, and acted as catalyst for additional financial support and investor confidence. The MFA conditionality package was fully aligned with the related IMF programme and created a politically reinforcing effect that contributed to the mobilisation of Ukrainian authorities around essential reforms, especially in areas not covered by other international donor programmes.

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

In principles, the provisions for macro-financial assistance in the MFF 2021-2027 are built at the rate of 9% to the Common Provisioning Fund established under Article 212 of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council.

In accordance with the principle of sound financial management and in view of the currently estimated risk exposure, it is necessary to cover these additional exposures to Ukraine at the rate of 70% of provisions under the Union budget.

In addition, given the difficult situation of Ukraine and to support it on its long-term stability path, the Union should have the possibility to exceptionally cover the interest rate costs and waive to Ukraine the administrative costs. The interest rate subsidy should be borne by the envelope referred to in the first indent of point (a) of Article 6(2) of Regulation (EU) 2021/947 for the period 2023-2027.

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. The provision of further support to Ukraine in the form of a loan, at this juncture, can assist the Ukrainian authorities in overcoming significant funding challenges arising from the conduct of the war. Moreover, by supporting the authorities' efforts to maintain a stable macro-financial environment, the proposed MFA 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 MFA is also part of a broader EU relief and reconstruction initiative for Ukraine and is an integral part of the overall international support for Ukraine.¹⁹

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

By using a loan, 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

¹⁹ As presented in the 18 May Communication by the Commission, https://ec.europa.eu/info/sites/default/files/ukraine-relief-reconstruction_en.pdf.

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

☒ **limited duration**

- ☐ in effect from [DD/MM]YYYY to [DD/MM]YYYY
- ☐ Financial impact from YYYY to YYYY for commitment appropriations and from YYYY to YYYY for payment appropriations.

☐ **unlimited duration**

- Implementation with a start-up period from YYYY to YYYY,
- followed by full-scale operation.

1.7. Management mode(s) planned²⁰

☒ **Direct management** by the Commission

- ✖ 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.*

²⁰

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.

This assistance is of macroeconomic nature. The monitoring of the action by the Commission services will take place on the basis of the specific measures to be agreed with the Ukrainian authorities in a Memorandum of Understanding.

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.

MFA disbursements are dependent on successful reviews, and tied to the fulfilment of political pre-conditions attached to the operation. The respect of these conditions is closely monitored by the Commission.

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

Risks identified

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

A key risk to the operation stems from the continuation of the war caused by the Russian unjustified and unprovoked invasion of Ukraine, which could have a further negative impact on Ukraine's macroeconomic stability, affecting the disbursement and/or repayment of the proposed MFA.

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 third risk stems from the possibility that Ukraine will fail to service the financial liabilities towards the EU stemming from the proposed MFA loan (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.

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

During the implementation, the Commission will check periodically the partner's declarations. The payment is subject to (1) monitoring by DG ECFIN staff and (2) the normal control procedure provided for by the financial circuit (model 2) used in DG ECFIN. 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 have ensured an effective error rate for MFA payments so far 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 reporting requirements will be linked to the assistance, with a view to strengthening transparency and accountability on the use of funds. 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 will carry 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 previous 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. The Commission will carry out a second Operational Assessment during the implementation of the proposed exceptional MFA operation.

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. ²¹	from EFTA countries ²²	from candidate countries ²³	from third countries	within the meaning of Article 21(2)(b) of the Financial Regulation
6	14 02 01 11 “Eastern neighbourhood”	Diff.	NO	NO	NO	NO
6	14 02 01 70 “NDICI – Global Europe – Provisioning of the Common Provisioning Fund”	Diff.	NO	NO	NO	NO

- New budget lines requested – Not applicable

²¹ Diff. = Differentiated appropriations / Non-diff. = Non-differentiated appropriations.

²² EFTA: European Free Trade Association.

²³ 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
- ☐ 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'
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DG: NEAR			Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027	TOTAL
☐ Operational appropriations										
Budget line ²⁴	Commitments	(1a)			20.0	20.0	20.0	20.0	20.0	100.0
14 02 01 11 ” Eastern neighbourhood” ²⁵	Payments	(2a)			20.0	20.0	20.0	20.0	20.0	100.0
DG: ECFIN			Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027	TOTAL
Budget line										
14 02 01 70 “NDICI – Provisioning of the Common Provisioning Fund” ²⁶	Commitments	(1b)	27.3	125.0	162.6	32.5	143.4	143.4	65.8	700.0

²⁴ According to the official budget nomenclature.

²⁵ To be reinforced from the NDICI Emerging challenges and priorities cushion, budget line 14 02 04.

²⁶ Amount of the provisioning for MFA loans (9%) to be committed and paid into the Common Provisioning Fund in the period 2021-2027, subject to the adoption of the annual budgets.

	Payments	(2b)				81.2	100.0	300.0	218.8	700.0
Appropriations of an administrative nature financed from the envelope of specific programmes ²⁷										
Budget line 14.20.03.01 MFA Grants	Commitments	(1c)		0.1			0.15			0.25
	Payments	(2c)		0.1			0.15			0.25
TOTAL appropriations for DG ECFIN	Commitments	=1b + 1c	27.3	125.1	162.6	32.5	143.5	143.4	65.8	700.25
	Payments	=2b +2c		0.1		81.2	100.1	300.0	218.8	700.25

□ TOTAL operational appropriations (NEAR +ECFIN)	Commitments	(3)	27.3	125.1	182.6	52.5	163.5	163.4	85.8	800.25
	Payments	(4)		0.1	20.0	101.2	120.1	320.0	238.8	800.25
□ TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(5)								
TOTAL appropriations under HEADING 6 of the multiannual financial framework	Commitments	= 3+ 5	27.3	125.1	182.6	52.5	163.5	163.4	85.8	800.25
	Payments	= 4+ 5		0.1	20.0	101.2	120.2	320.0	238.8	800.25

²⁷

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.

Heading of multiannual financial framework	7	‘Administrative expenditure’
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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.

EUR million (to three decimal places)

		Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027	TOTAL
DG: ECFIN								
☐ Human resources		0.848	0.424	0.424	0.072	0.072	0.072	1.912
☐ Other administrative expenditure		-	0.06	-	-	-	-	0.06
TOTAL DG ECFIN	Appropriations	0.848	0.484	0.424	0.072	0.072	0.072	1.972

TOTAL appropriations under HEADING 7 of the multiannual financial framework	(Total commitments = Total payments)	0.848	0.434	0.424	0.072	0.072	0.072	1.972
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EUR million (to three decimal places)

		Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027	TOTAL
TOTAL appropriations under HEADINGS 1 to 7 of the multiannual financial framework	Commitments	27.3	125.948	183.084	52.924	163.572	163.472	85.872	802.172
	Payments		0.948	20.484	101.624	120.172	320.072	238.872	802.172

3.2.2. Estimated output funded with operational appropriations

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs □			Year 2022		Year 2023		Year 2024		Year 2025		Year 2026		Year 2027		TOTAL		
	OUTPUTS																
	Type ²⁸	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	Total No	Total cost
SPECIFIC OBJECTIVE No 1 ²⁹ ...																	
- Output	Grant disbursements						20.0		20.0		20.0		20.0		20.0		100.0
- Output	Provisioning of the External Action		700.0														700.0
- Output	Operational Assessment	1	0.1													1	0.1
- Output	Ex-post evaluation							1	0.15							1	0.15
Subtotal for specific objective No 1				700.1				20.0	1	20.15		20.0		20.0		20.0	800.25
TOTAL				700.1				20.0	1	20.15		20.0		20.0		20.0	800.25

²⁸ Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).

²⁹ 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	Year 2026	Year 2027	TOTAL
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HEADING 7 of the multiannual financial framework							
Human resources	0.848	0.424	0.424	0.072	0.072	0.072	1.912
Other administrative expenditure	-	0.06	-	-	-	-	0.06
Subtotal HEADING 7 of the multiannual financial framework	0.848	0.484	0.424	0.072	0.072	0.072	1.972

Outside HEADING 7³⁰ of the multiannual financial framework							
Human resources							
Other expenditure of an administrative nature							
Subtotal outside HEADING 7 of the multiannual financial framework							

TOTAL	0.848	0.484	0.424	0.072	0.072	0.072	1.972
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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, 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.

³⁰ 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

- ☐ 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	Year 2026	Year 2027	TOTAL
☐ Establishment plan posts (officials and temporary staff)							
20 01 02 01 (Headquarters and Commission's Representation Offices)	5.4	2.7	2.7	0.45	0.45	0.45	12.15
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) ³¹							
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 ³²	- 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	5.4	2.7	2.7	0.45	0.45	0.45	12.15

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
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³¹ AC= Contract Staff; AL = Local Staff; END= Seconded National Expert; INT = agency staff; JPD= Junior Professionals in Delegations.

³² 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:

- ☒ 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:

- ☐ does not provide for co-financing by third parties

3.3. Estimated impact on revenue

- ☐ The proposal/initiative has no financial impact on revenue.