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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing exceptional macro-financial assistance to Ukraine, reinforcing the Common Provisioning Fund by guarantees by the Member States and by specific provisioning for some financial liabilities related to Ukraine guaranteed under Decision No 466/2014/EU, and amending Decision (EU) 2022/1201

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- Reasons for and objectives of the proposal

This proposal seeks to enable the EU to provide further exceptional macro-financial assistance (MFA) to Ukraine of EUR 5 billion in loans, while equipping the EU budget with the means to absorb the risk of losses on these additional loans and on the EUR 1 billion MFA loan adopted on 12 July 2022. In addition, it also seeks to extend the same budgetary protection for the disbursement of already signed External Lending Mandate (ELM) loans to the Ukrainian authorities and Ukrainian state-owned entities after 15 July 2022.

- General context

The EU's support for Ukraine is embedded in a strong long-term relationship. Ukraine has been developing a strong partnership with the EU since 2014, going beyond mere bilateral cooperation to evolve towards gradual political association and economic integration. The EU-Ukraine Association Agreement (AA), which entered into force on 1 September 2017 and includes a Deep and Comprehensive Free Trade Area (DCFTA), has been the main tool for bringing Ukraine and the EU closer together. In addition to promoting deeper political ties, stronger economic links and 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 significant structural reforms, which are crucial for attracting investments, boosting productivity and raising the standards of living in the medium and longer term. Following the country's application for EU membership and the granting of candidate country status, cooperation with Ukraine is set to deepen further as the country moves forward on its European path[1].

Ukraine's long-term economic development and focus on reform orientation of Ukraine face very significant challenges since Russia invaded the country on 24 February 2022 in an unprecedented act of unjustified and unprovoked aggression. In addition to the human suffering, the on-going Russian war of aggression against Ukraine has caused considerable damage to the country's physical infrastructure (roads, bridges, factories, etc.) and its residential and communal buildings (housing units, schools, hospitals, etc.). The fighting has also caused a massive human exodus, with more than 8 million internally displaced persons and more than 6 million refugees. The estimates of the overall impact on the economy, in terms of loss of output in 2022 and foregone future production due to the destruction of capital and the migration of labour, range in the hundreds of billions. In 2022 alone, Ukraine's GDP is expected to fall by between 30% and 50%, which would mean a further loss of more than EUR 100 billion, in addition to the destruction of physical capital.

In addition to inflicting massive 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 was estimated by the authorities and the International Monetary Fund (IMF) in June 2022 to reach around USD 39 billion for the whole of 2022. In the IMF's initial assessment, Ukraine could finance USD 9 billion of this

[1] Ukraine applied officially for EU membership on 28 February 2022, 4 days after the Russian invasion, and was granted candidate country status by the European Council on 23 June 2022.

gap through a safe draw-down on its official international reserves that would not threaten its macro-financial stability[2].

Bilateral and multilateral commitments of financial support pledged to Ukraine in the context of the G7 Finance Ministers and Central Bank Governors meeting in Petersberg on 18-20 May have reached almost USD 20 billion. While these commitments are crucial to support the functioning of the Ukrainian state, even their full and prompt disbursement would mean an uncovered residual gap of around USD 10 billion of the funding needs estimated by the IMF. The release of a sizeable part of the remainder of the exceptional MFA would provide an additional significant relief and help cover part of this shortfall.

Reflecting the sizeable gap between commitments and disbursements, among other issues, the country's international reserves decreased by the equivalent of USD 8.5 billion in the first 7 months of 2022 and stood at around USD 22.3 billion by the end of July (covering around 3.5 months of future imports), thus leaving only very limited buffers for drawing down reserves for the remainder of the year (with USD 20 billion often seen as a critical level of reserves needed to ensure macroeconomic stability in the country). In this increasingly challenging context, on 21 July, the Ukrainian central bank (NBU) devalued the hryvnia by 25% against the US dollar, while keeping the fixed exchange rate regime. This step has been accompanied by additional measures to minimise the demand for foreign currency[3].

Ukraine also launched, on 21 July, a formal consent solicitation on the suspension of its commercial debt service at least until the end of 2023. This debt service suspension initiative, which was welcomed and backed by an intention to do the same by key bilateral official creditors, notably the Group of Creditors of Ukraine[4]. It provides for an important contribution to help Ukraine manage its liquidity and is expected to provide further budgetary relief.

On the EU side, many Member States have provided grants and pledged further loans and guarantees, either bilaterally or through international financial institutions. Bilateral loans provided to date by EU Member States are concessional in nature and contain a considerable grant element when applying the established OECD methodology for the calculation of the grant element of official development aid.

The EU itself has provided EUR 2.2 billion to Ukraine in the form of MFA loans in the course of 2022. EUR 1.2 billion of emergency MFA was disbursed in March and May and a further EUR 1 billion of exceptional MFA was disbursed on 1 and 2 August[5]. The latter is the first part of the exceptional MFA support of up to EUR 9 billion that was announced in the Commission's 18 May Communication on Ukraine Relief and Reconstruction and endorsed by the European Council on 23-24 June 2022. Faced with the large overall funding gap, the EU has announced its determination to make a sizeable contribution towards financing

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

3 First, the NBU permitted banks to sell cashless foreign currency with the purpose of depositing the amount for at least three months without the right for early termination. Second, more stringent limits have been imposed for the card-based cash withdrawal of foreign currency as well as for transfers and payments abroad. Third, the algorithm for calculating banks' open FX positions has been adapted and will come into effect on 1 August 2022.

4 The Group of Creditors of Ukraine includes Canada, France, Germany, Japan, United Kingdom, and the United States of America. Observers to the Group include Australia, Austria, Belgium, Brazil, Denmark, Finland, Ireland, Israel, Italy, Korea, the Netherlands, Norway, Spain, Sweden, and Switzerland.

5 The single instalment of the exceptional MFA of up to EUR 1 billion was finalised in two tranches on two consecutive days in order to optimize the average interest rate on the funds borrowed.

Ukraine's remaining funding needs for the whole of 2022. The urgency for releasing significant funds by the end of the year is further underscored by the limited flow of international financial support pledged for the fourth quarter.[6]

Following the call from the European Council of 23-24 June and given the urgency of Ukraine's short term funding needs, the European Commission presented a first proposal for exceptional MFA of up to EUR 1 billion, which was fully disbursed in two tranches on 1 and 2 August 2022. To make progress with the delivery of that exceptional support package, the European Commission presents this proposal for a further exceptional MFA of EUR 5 billion in loans to Ukraine. The remaining up to EUR 3 billion of the announced exceptional MFA of up to EUR 9 billion will be provided as soon as possible.

In addition to the provision of direct support, the European Commission agreed in July 2022 to the repurposing of EUR 1.59 billion in undisbursed loans provided under the External Lending Mandate (ELM), of which EUR 1.05 billion is to be disbursed by the EIB during the third quarter of 2022 as support for the Ukrainian authorities and EUR 536 million of EIB loans to be disbursed at a later stage with the purpose of resuming selected projects. This comes in addition to the EUR 668 million that the Commission and EIB had already agreed to repurpose in March 2022 and which was disbursed within 1 month of the start of Russia's war of aggression.

The MFA loans and repurposed ELM loans come in addition to many other types of support by the EU, notably humanitarian aid, development and defence assistance, the suspension of all import duties on Ukrainian exports for 1 year and other solidarity initiatives, e.g. addressing transport bottlenecks so that exports, in particular of grains, could be ensured.[7]

Moreover, this extensive programme of EU support is part of the extraordinary international effort by bilateral donors and international financial institutions to support Ukraine at this critical juncture, and on its way to longer-term reconstruction.

Finally, in light of the elevated risk of financial exposures to Ukraine, this proposal clarifies the budgetary means that are needed to underpin the granting of additional exceptional MFA loans for an amount of EUR 5 billion and the disbursement of repurposed ELM loans.

- Main elements of this proposal

(1) Exceptional nature of this MFA operation

Given the unprecedented circumstances of the Russian war of aggression against Ukraine, this exceptional MFA differs from regular MFA operation by offering increased flexibility in several respects. The concessional nature of the assistance is strengthened through a higher average maturity of the loans of up to 25 years and the possibility for the EU budget to cover the interest rates and administrative fee payments. In addition, in the current context and unlike regular MFA operations, the proposed exceptional MFA of up to EUR 5 billion is not formally linked to a disbursing IMF programme.

A Memorandum of Understanding (MoU), to be agreed with the Ukrainian authorities, presents the details related to the release of the loan instalments. In addition to selected policy

[6] The Ukrainian Ministry of Finance, in collaboration with the IMF, expects that budget support in the fourth quarter has been sufficiently secured by firm donor commitments will be somewhat higher than 2 billion dollar.

[7] The website https://eu-solidarity-ukraine.ec.europa.eu/eu-assistance-ukraine_en gives an overview of stepped up efforts by the EU.

conditions to which disbursements under this second part of the exceptional MFA to Ukraine will be linked, this MoU will also require the use of the reporting systems set up in the context of the first part of the exceptional MFA. The selected policy measures to which the disbursement of the assistance is linked will be both relevant to the most critical issues and proportionate to what could be achieved at the current juncture in light of the ongoing Russian war of aggression against Ukraine. Through the reporting system, the future MoU would emphasise enhanced transparency and accountability regarding the use of budgetary resources (including the funds received under this assistance). It could also include needs' assessments to be addressed, in particular of critical infrastructure such as roads, railways, hospitals, schools, and housing. 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, and that have not been completed due to *force majeure*, could also be considered, where appropriate[8].

(2) Budgetary and risk management considerations

This package of exceptional MFA loans must take into account the size and heightened risk profile of EU exposures to Ukraine, as well as the particular constraints faced by the EU budget at the current juncture. It is however also envisaged that the loans will be provided on highly concessional terms (average maturity of up to 25 years), while also offering short-term relief to the Ukrainian State by relieving it of the burden to make interest rate repayments – at least for the current Multiannual Financial Framework (MFF). Taking these various considerations into account, this proposal reflects the following features:

a. Higher loss absorption capacity commensurate with higher credit risk

Similar to the recent European Parliament and Council Decision adopting exceptional MFA of up to EUR 1 billion in loans[9], the proposed package of loans to Ukraine under the present circumstances presents elevated risks of potential non-repayment compared to standard MFA loans. The provisioning rate of 9% that is generally applied to countries facing a balance-of-payment crisis is not adequate following Russia's war of aggression. Having considered the challenges facing Ukraine and the probability of incurring losses, this proposal envisages that a budgetary cover of 70% is needed to insure the EU budget against future contingencies. This high rate of provisioning is currently considered necessary to contain the risk implied by this additional exceptional MFA to Ukraine, in line with the principles of sound financial management.

On this basis, the 70% coverage represents a prudent and conservative risk mitigation policy which is needed to reassure investors that amounts invested in EU bonds which finance the exceptional MFA loans to Ukraine, will be repaid in full and on time.

b. Need to establish the required budgetary cover through Member State guarantees

The External Action Guarantee within the Neighbourhood, Development and International Cooperation Instrument – Global Europe has been designed to guarantee MFA operations of approximately EUR 11 billion overall, provisioned at the rate of 9%, given that MFA loans involve sovereign risk. On this basis, EUR 1 billion in provisions have been earmarked in the

8 While the fulfilment of policy conditions attached to the emergency MFA has been impeded by the war circumstances, the Ukrainian authorities have in the meantime still made progress in implementing policy conditions attached to the emergency MFA, like the recent appointment of a new head of the Specialised Anti-corruption Prosecutor's Office (SAPO) on 28 July.

9 Decision (EU) 2022/1201

financial programming for MFA operations to third countries from the funds provided in Article 31(5), third subparagraph of Regulation (EU) 2021/947.

The bulk of this provisioning has already been earmarked for MFA loans to Ukraine – including the emergency MFA loans of EUR 1.2 billion at 9% (EUR 108 million of provisions), and the recent exceptional MFA loan of EUR 1 billion at 70% (EUR 700 million of provisions). Consequently, the remaining EU budgetary resources are not sufficient to provide the budgetary cover needed to provision the additional loans of EUR 5 billion at 70% of their notional value.

The proposed new MFA loans can therefore only go ahead in a financially sound manner if Member States are willing to provide the additional budgetary coverage required. It is proposed that this coverage take the form of guarantees, with the amounts pledged by each Member State calculated on a pro-rata GNI basis. Through these guarantees, the EU can call on amounts needed to honour its repayment commitments to the bondholders, in the event and to the extent required to meet a shortfall in the Common Provisioning Fund (CPF) occasioned by a potential payment default by Ukraine. Member States would not need to provide upfront provisioning in cash and the call on the guarantees would occur only in the event of payment defaults by Ukraine were to have depleted the dedicated provisioning that is available in the CCPF. Guarantees are also an appropriate response given the contingent and uncertain nature of the potential losses. As indicated above, the loans would be structured in a way to maximise the chances that Ukraine has recovered sufficiently to allow it to honour its repayments in full.

The provision of Member States guarantees is a technique that has been used in the context of the Support to mitigate Unemployment Risks in an Emergency (SURE) Regulation[10], as a basis for ensuring that the EU had sufficient budgetary capacity to absorb expected losses on its loans to Member States. However, unlike in the case of SURE, which was conditioned on all guarantees having entered into force, given the extreme urgency of Ukraine's funding needs, the exceptional MFA loans to Ukraine could become available before the individual national guarantee agreements between the Commission and the Member States enter into force if there is a firm commitment among Member States that these are forthcoming as soon as possible.

c. Maximising synergies between EU provisioning and Member State guarantees

In order to manage optimally situations where EU budgetary provisions and Member State guarantees may be called upon to ensure repayments to EU bond-investors, it is proposed to manage the recent exceptional MFA loan of EUR 1 billion, disbursed on 1 and 2 August 2022, and the additional loans of EUR 5 billion under this initiative as an integrated set of exposures for an amount of EUR 6 billion. By using this approach, the EU budget will provide a first-loss protection for 9 % of the full package of EUR 6 billion in loans. This would be reinforced by the Member State guarantees for a further 61% of the value of the loans.

Managing the two sets of loans of the exceptional macro-financial assistance together in this way has the following implications.

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[10] Council Regulation (EU) 2020/672 of the 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak.

- The planned provisions from the EU budget to be used exclusively for meeting the EUR 6 billion of potential claims arising from new exposures related to Ukraine will amount to EUR 540 million. This sizeable amount (to be increased further by provisions for repurposed ELM loans – see below) will provide a significant buffer for managing repayment needs in the event that Ukraine is unable, temporarily or otherwise, to meet its payment obligations to the EU. A buffer of this size can serve as an effective first layer of protection in the event that Ukraine was to miss payments to the EU, and can delay the need to call on Member State guarantees. These provisions of EUR 540 million can be held in a dedicated compartment of the CPF. This would allow the release of EUR 160 million of provisions from the EUR 700 million already earmarked for the EUR 1 billion loan of the first part of the exceptional MFA package.
- To bring the budgetary cover to the required level of 70%, Member States should provide budgetary guarantees for the remaining 61% of the full package of EUR 6 billion of exceptional MFA loans. The volumes to be guaranteed by Member States would amount to a combined total of EUR 3.66 billion. These guarantees would be called upon only if the amounts held as provisions in the specific compartment of the CPF dedicated to MFA Ukraine were to have been depleted. Member States commit to provide resources unconditionally and immediately in response to a Commission request arising from a potential failure of Ukraine to meet its payment obligations. Since Member States do not provide cash up-front, the budgetary guarantees agreed by the Member States represent contingent liabilities. The guarantees are a second layer of protection for the investors in the EU bonds that finance the exceptional MFA loans.

This approach requires some minor changes to the text of the Decision (EU) 2022/1201[11] on the exceptional MFA loans of EUR 1 billion. This proposal presents these changes.

d. Coverage of interest rate costs from the EU budget

The EU budget may bear the interest rate costs arising from the July loan of EUR 1 billion under the current MFF, if requested by Ukraine and subject to availability of budgetary resources. By assuming the interest rate costs, the EU would provide additional financial relief to Ukraine and also confine and defer the risk of potential non-repayment of principal to the moment of loan expiry or potential default. The Commission could arrange a loan with a long maturity (average maturity would be 25 years) in order to provide as long a period as possible for Ukraine to return to growth, reconstruct its economy in line with its European path and maximise the chances of full repayment. By structuring the liabilities in this way, the European Commission can also try to alleviate the risk of calls for part or all of the Member State guarantees. To extend the same treatment to the interest rate costs implied by the additional EUR 5 billion of exceptional MFA loans, additional means need to be mobilised.

e. Application of a higher provisioning rate to repurposed ELM loans disbursed in Q3 2022 and ELM loans yet to be disbursed

Faced with Ukraine's urgent financing needs, in July 2022 the European Commission agreed to repurpose EUR 1.59 billion in EIB ELM loans to Ukraine. 1.05 billion is to be disbursed by the EIB during the third quarter of 2022. The EIB plans to disburse another EUR 536 million

[11] Decision (EU) 2022/1201 of the European Parliament and of the Council of 12 July 2022 providing exceptional macro-financial assistance to Ukraine (OJ L 186, 13.7.2022, p. 1).

in loans in 2022-23 in order to help finance the resumption of selected investment projects. However, as these are loans to the Ukrainian sovereign (or guaranteed by it), they embody the same level of risk as the exceptional MFA loans. Under the ELM Guarantee Agreements, the EIB has the right to call on the EU budget for up to the full amount of losses that it incurs on these loans under the ELM guarantee. It should therefore be clarified that the same precautionary approach should apply to these exposures and that relevant additional provisions should be put into a common compartment of the CPF dedicated to Ukraine. This proposal therefore envisages extending the 70% provisioning rate to these EUR 1.59 billion of additional exposure stemming from repurposed loans. Any further potential disbursements of repurposed ELM loans to Ukraine would be subject to the same provisioning rate (as periodically reviewed) and under the condition that budgetary resources are found for such provisioning.

The 70% provisioning for the EUR 1.59 billion ELM loans will be provided from the EU budget, they will be governed by the rules on provisioning of the Financial Regulation, not of GFEA and will be held in a separate CPF compartment.

It is proposed that unless the assessment of associated risks changes, any further disbursements of ELM loans to Ukraine be conditional on finding the budgetary resource to provision the exposures at 70% of their notional value taking into account the priorities of NDICI Global Europe Instrument.

f. Review of provisioning needs for MFA and ELM loans

The high level of provisioning in this proposal is warranted by the fact that Ukraine is currently dealing with the military, economic and social fall-out of a major armed conflict. If the military and economic situation of Ukraine stabilises or improves, this level of provisioning may no longer be required. This proposal therefore envisages a regular (6-monthly) review of this provisioning rate, commencing in mid-2023 or earlier if appropriate. This review will also apply to the provisioning for the EUR 1 billion loan that has been granted on the basis of Decision (EU) 2022/1201,[12] and to the exceptional provisioning of 70% held against the 1.59 billion EUR ELM repurposed loans (see below). In addition to this regular review, the Commission could re-assess the provisioning rate on an ad-hoc basis, in particular if justified by a notable relevant event.

(1) Implementation of MFA loans

The Commission will arrange to disburse instalments of the exceptional MFA loans as a matter of urgency after this proposal has been adopted and all formalities have been completed. These include in particular the (i) unequivocal and unanimous commitment by all Member States to conclude guarantee agreements, as quickly as their national procedures allow; and (ii) the signature of the MoU and the entry into force of the Loan Agreement.

This proposal envisages that the European Commission will proceed to arrange loans immediately after this Decision enters into force, subject to a clear and unequivocal commitment by all Member States that guarantees will be provided as swiftly as national procedures allow. Past experience has shown that while many Member States can provide guarantees within 2-3 months, it can take 4-5 months to receive the full set of guarantees. This would not be compatible with the objective of providing urgent support to Ukraine. The Commission therefore envisages – on an exceptional basis given the extreme nature of the

[12] Decision (EU) 2022/1201 of the European Parliament and of the Council of 12 July 2022 providing exceptional macro-financial assistance to Ukraine (OJ L 186, 13.7.2022, p. 1).

situation – to arrange the loans while receiving the guarantees in parallel. In this particular case, the risk for the EU budget is mitigated given that no payment event (interest payment) is due for a prolonged period of time. In particular, no payment events will fall due during the interim period (4-5 months) before all guarantees have been received. In the theoretical case that non-payment events would occur in this interim period, the provisioning set aside in the CPF (and, if needed, temporary draw-down of other CPF compartments) can be mobilised to deal with any temporary shortfalls. The availability of the CPF provisioning means that there are cash resources available to ensure all payments owed to EU bond-investors, even if guarantees are not yet fully in place.

Therefore, the European Commission proposes to arrange the new MFA loans in a small number of instalments as swiftly as possible after entry into force of this Decision and finalisation of the related Loan Agreement. It is of utmost importance that all Member States provide the required budgetary guarantees as quickly as possible, and that there is a collective commitment to complete this process swiftly.

To deliver the full amount of up to EUR 9 billion of exceptional MFA as announced in the Communication on Ukraine Reconstruction and Relief of 18 May 2022, the European Commission is working with EU Member States on a sound and equitable mechanism for disbursing the remaining up to EUR 3 billion. Once the design has been completed, the Commission will swiftly move ahead with a proposal on the remaining amount of support.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

• Legal basis

Article 212 of the Treaty on the Functioning of the European Union is an appropriate legal basis for financial assistance granted by the Union to third countries. 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 provide for a mechanism of guarantees by the Member States which will underpin the financial assistance. In the current circumstances, those guarantees are an indispensable accompanying part of the financial assistance.

• 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 EU. 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, while 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 is restricted 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 IMF[13], the amount of the proposed exceptional MFA, together with the already disbursed emergency MFA, corresponds at most to half of the estimated residual financing gap for

[13] As confirmed by the IMF to the European Commission in an assessment letter received in June 2022.

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.

Member State guarantees, to be called upon only when required by exceptional circumstances, seems the most efficient solution from a financial perspective. It avoids having to find additional resources within the current MFF ceilings, where all amounts are currently fully deployed. It also avoids Member States having to provide additional funds ex ante but enables amounts to be called ex post if potential losses were to occur.

Member States will only be required to make resources available under this instrument in a restricted set of circumstances set out in the Decision. In particular, they will not have to make cash transfers to the EU immediately but only when conditions for guarantee calls are met. Given that repayments can be met in a first instance from the CPF provisions, calls on the guarantees are likely to be, if at all, rather infrequent and predictable.

- **Choice of the instrument**

Project finance or technical assistance would be neither suitable nor sufficient to address the broader macro-financial objectives of this exceptional MFA. The main added value of the exceptional MFA compared to other EU instruments is to alleviate the external financial constraints swiftly and to the extent required. It helps to ensure a stable macro-financial framework, including by promoting a sustained and more sustainable balance of payments and budgetary situation, within an appropriate framework for reporting requirements and policy conditions. By helping to ensure an appropriate overall policy framework, the MFA can increase the effectiveness of the measures financed in Ukraine under other, more narrowly-focused EU financial instruments. The impact on the country's debt sustainability is lessened by setting up the operation in a highly concessional manner, with longer maturities and a subsidy to cover interest costs. Swiftly providing the much needed and very sizeable amount of financial support through the MFA's highly concessional set-up for loans appears warranted, notably given the limits that he international community, including the EU, faces to provide substantial grant financing.

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 conditions.

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 complementary 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.

There have been no recent reviews of the provisioning rates applied to the MFA and Euratom loan facility portfolios or the provisioning of the external lending mandate budgetary guarantee. The provisioning rate for the MFA under the External Action Guarantee was

reconfirmed at 9% when Regulation 2021/947 (the NDICI-GE Regulation) was adopted. The NDICI-GE Regulation also lays down a maximum amount of provisioning for the entire External Action Guarantee[14]. A review of the provisioning of the macro-financial assistance is scheduled for 2024. While the MFA is a crisis instrument by nature, the risks of lending to a country at war goes far beyond the scenarios envisaged when the NDICI-GE was adopted. There is therefore a need to adopt tailored solutions to deal with the pressing situation at hand, based on available analysis.

- **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 (including Member States) 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. This includes discussions on regular basis of the latest projections of the funding needs projections of Ukraine within international fora, e.g. the G7.

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 IMF). The situation of the EU, which has financed MFA 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 defaulted payment flows from the loan beneficiaries. In order to be able to provide fast and further MFA of an exceptionally large size to a single beneficiary under the present circumstances, while maintaining its funding model, the Union needs to reinforce the Common Provisioning Fund by additional guarantees by the Member States that would act as a back-stop to the 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 Russian war of aggression against Ukraine. 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 MFA.

[14] The External action guarantee covers the EFSD+ operations covered by budgetary guarantees in accordance, macro-financial assistance and loans to third countries referred to in Article 10(2) of Regulation (Euratom) 2021/948. Article 31(4) of the NDICI-GE Regulation sets the maximum amount of operations under the External action guarantee at EUR 53 448 800 000 and the maximum amount of provisioning at EUR 10 000 000.

- **Impact assessment**

The Union's MFA is an exceptional emergency instrument aimed at addressing severe balance-of-payment difficulties in third countries. 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 exceptional MFA will help alleviate the short-term financing needs of Ukraine in the current extraordinary circumstances. The reporting requirements and policy conditions linked to this exceptional MFA aim to ensure the efficiency, transparency, and accountability of the support. This 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 does not require an Impact Assessment, as macro-financial assistance is the only available policy option to address the issue at hand. The use of additional guarantees 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 aggresion, 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 EUR 5 billion exceptional MFA to Ukraine will be borrowed in the capital markets and on-lent to Ukraine. This will complement the EUR 1 billion exceptional MFA to Ukraine granted under Decision (EU) 2022/1201.

To protect the Union budget, the two exceptional MFA loans of an overall amount of up to EUR 6 billion to Ukraine should benefit from a 70% coverage composed by paid-in provisioning of 9% and callable guarantees from Member States of 61%. The required paid-in provisioning (at a rate of 9% of the External Action Guarantee) will be earmarked under the NDICI-GE, for a total amount of EUR 540 million (budget line 14 02 01 70 "NDICI-GE – Provisioning of the Common Provisioning Fund"). The scope for mobilising budgetary resources for this additional provisioning above the 9% under the current MFF ceilings is however limited. Recourse to guarantees by the Member States is needed in order to be able to provide further MFA loans to Ukraine in a sound budgetary manner and without disrupting

the implementation of MFF 2021-2027. This is the rationale for the proposal that Member States provide guarantees for a further 61% of the value of the proposed EUR 6 billion in loans.

The overall coverage would thus benefit from a first loss protection with paid-in provisioning of 9% of the EUR 6 billion, followed by complementary guarantees by Member States covering exposures up to EUR 3.66 billion, or 61% of the EUR 6 billion of MFA loans and in line with the applicable legislation, any residual amounts would be covered by the Union budget as a contingent liability.

The exceptional macro-financial assistance to Ukraine under this Decision will be arranged directly upon entry into force of this Decision, and without waiting for receipt of the required national guarantees.

Given the urgent need to arrange loans for Ukraine in the course of 2022, the EU will arrange the loans before Member States' guarantees are in place. Past experience has shown that while many Member States can provide guarantees within 2-3 months, it can take 4-5 months to receive the full set of guarantees. Delays of this duration cannot be countenanced given the extreme urgency of the Ukrainian financing needs. The Commission therefore envisages – on an exceptional basis given the extreme nature of the situation – to arrange the loans while receiving the guarantees in parallel.

During this interim period, investors in EU bonds incur no risk of non-payment by the EU during the short period before all guarantees are received because of the way that the present loan package has been constructed. In particular, no payments events will fall due during the interim period (4-5 months) before all guarantees are expected to be received. In the theoretical scenario that a non-payment were to occur in the period before all guarantees are received, the European Commission could draw on the provisions set aside for the MFA loans and, if needed, other provisions held in the EU's Common Provisioning Fund.

Member States should complete their national procedures for the guarantees to enter into force as a matter of the utmost urgency.

The guarantees would cover amounts going beyond the initial paid-in provisioning of 9% of the loan amount under this Decision and Decision (EU) 2022/1201, which would be provided from the MFF as foreseen in Article 31(5) of the NDICI-GE Regulation and the financial programming. The calls will be confined to situations of non-payment by Ukraine on the loan under the current Decision and under Decision (EU) 2022/1201 and would be used to satisfy Union's obligations in the first place and, as appropriate, to replenish the dedicated Ukraine related compartment in the Common Provisioning Fund. Such contributions would be taken into account for calculating the provisioning resulting from the provisioning rate referred to in Article 211(1) of the Financial Regulation, by derogation from second subparagraph of Article 211(4) of the Financial Regulation.

The amounts called from the Member States would constitute external assigned revenue within the meaning of Article 21(2)(a)(ii) of the Financial Regulation to provide contributions by Member States for provisioning for MFA, which is an external aid programme guaranteed under the NDICI-GE.

Given the exceptional nature of the macro-financial assistance backed by the guarantees it is appropriate to cover the financial liability from the MFA under this Decision and under Decision (EU) 2022/1201 separately from other financial liabilities under the External Action

Guarantee. In particular, it is appropriate to use the provisioning set aside in the CPF in respect of this MFA solely for financial liabilities under this Decision, instead of the general rule of Article 31(6) of the NDICI-GE regulation.

The same risk considerations apply to ELM loans disbursed or to be disbursed by the EIB after 15 July 2022. This proposal therefore envisages extending the 70% provisioning rate to those loans, application of the rules on provisioning of the Financial Regulation, and not GFEA rules and provides that the provisions should be kept in a separate compartment of the CPF.

In addition, an interest rate subsidy should be provided as described below, to be borne by the envelope referred to in the first indent of point (a) of Article 6(2) of the NDICI-GE 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**

The European Union shall make this exceptional MFA available to Ukraine for a total amount of EUR 5 billion in the form of long-term loans. This assistance, which is planned to be disbursed in several instalments, will contribute to covering the residual external financing gap of Ukraine in 2022. The first instalment will be paid after the approval of this proposal and the entry into force of the corresponding MoU, and as soon as Member States unanimously signal their agreement to complete their national procedures for submission of national guarantees as a matter of the utmost urgency.

The disbursement would further be conditional on the implemention of the reporting requirements as agreed in the MoU. 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.

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.

- **Explanatory documents (for directives)**

Not applicable

- **Detailed explanation of the specific provisions of the proposal**

The decision will also provide for a framework for guarantees by Member States to cover losses going beyond the provisioning already paid into the CPF or foreseen in the financial programming of MFF 2021-27.

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

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

Article 3 provides for clearly defined reporting and monitoring requirements, as well as policy conditions to which this Union's exceptional macro-financial assistance is to be linked. These requirements and conditions shall be set out in a Memorandum of Understanding.

Article 4 provides for the conditions necessary for the disbursement of this exceptional macro-financial assistance in multiple instalments. The timeframe and conditions for the disbursement of each instalment shall be laid down in the Memorandum of Understanding.

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

Article 6 explains the financing of the interest rate subsidy.

Article 7 presents the reporting obligations of the Commission before the European Parliament and the Council, during the implementation of this exceptional macro-financial assistance to Ukraine.

Article 8 provides details on the assessment of implementation of the exceptional macro-financial assistance.

Article 9 provides for the establishment of national guarantees for an overall amount of EUR 3.66 billion by the Member States.

Article 10 provides details on the guarantee agreements that the Commission shall conclude with the Member States.

Article 11 describes the provisioning with respect to the covered MFAs.

Article 12 provides for reinforcing the provisioning with respect to some financial liabilities in Ukraine guaranteed under Decision No 466/2014/EU.

Article 13 provides for an assessment of the adequacy of provisioning and for a review procedure.

Article 14 provides accounting details on the provisioning held in the Common Provisioning Fund.

Article 15 stipulates that a Committee shall assist the Commission, in accordance with Comitology procedures.

Article 16 details the exercise of delegation.

Article 17 presents the reporting obligations of the Commission before the European Parliament and the Council during the implementation of this exceptional macro-financial assistance to Ukraine.

Article 18 contains the amendments to Decision (EU) 2022/1201.

Article 19 clarifies the date of entry into force of this Decision.

2022/0281 (COD)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing exceptional macro-financial assistance to Ukraine, reinforcing the Common Provisioning Fund by guarantees by the Member States and by specific provisioning for some financial liabilities related to Ukraine guaranteed under Decision No 466/2014/EU, and amending Decision (EU) 2022/1201

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[15],

Whereas:

(1) An association agreement between the Union and Ukraine[16] (the 'Association Agreement'), including a Deep and Comprehensive Free Trade Area (DCFTA), entered into force on 1 September 2017.

(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 consecutive macro-financial assistance programmes, under which Ukraine has received assistance in the form of loans for a total of EUR 6.6 billion. The 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 Council[17], provided EUR 1.2 billion in loans to Ukraine, disbursed in two instalments of EUR 600 million in March and May 2022. The exceptional MFA of up to EUR 1 billion pursuant to Decision (EU) 2022/1201 of the European Parliament and of the Council[18] provided swift and urgent support to the Ukrainian budget and was fully disbursed on 1 and 2 August 2022. It represented the first part of the exceptional MFA package to Ukraine announced by the Commission in its Communication "Ukraine: Relief and Reconstruction" of 18 May 2022 and endorsed by the European Council of 23-24 June 2022. This Decision constitutes a

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15 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.

16 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).

17 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).

18 Decision (EU) 2022/1201 of the European Parliament and of the Council of 12 July 2022 providing exceptional macro-financial assistance to Ukraine (OJ L 186, 13.7.2022, p. 1).

second stage in the delivery of the commitment to provide up to EUR 9 billion in MFA assistance to Ukraine. It establishes the basis for providing a further EUR 5 billion in MFA loans on highly concessional terms. It should be followed swiftly by a third package of financial assistance for up to a further EUR 3 billion once the appropriate modalities have been determined.

(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 financing needs by the International Monetary Fund point to an extraordinary financing gap of around USD 39 billion in 2022 of which around half could be met if the international support pledged thus far would be fully disbursed. The swift provision by the Union of this second stage in the exceptional macro-financial assistance package to Ukraine is, under the current extraordinary circumstances, considered to be an appropriate short-term response to the sizeable risks to the macro-financial stability of the country. This further EUR 5 billion in exceptional macro-financial assistance would support Ukraine's macro-financial stabilisation, strengthen the immediate resilience of the country and sustain its capacity towards recovery, thereby contributing to the public debt sustainability of Ukraine and its ability to ultimately be in a position to repay its financial obligations.

(4) This new round of exceptional macro-financial assistance will make a significant contribution to the financing of Ukraine's funding needs as estimated by the International Monetary Fund (IMF) and other international financial institutions, taking into account its capacity to finance itself with its own resources. The determination of the amount of the assistance 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. Such a programme was formally requested in August 2022. The Union's exceptional macro-financial assistance should aim to maintain macro-financial stability and resilience under the circumstances of the Russian war of aggression. The Commission should ensure that the Union's exceptional 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 exceptional 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 exceptional 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 conditions linked to the Russian war of aggression against Ukraine, 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 exceptional macro-financial assistance should be linked to reporting requirements and policy conditions, to be set out in a memorandum of understanding (MoU). The robust reporting requirements aim, under the current circumstances of the Russian war of aggression against Ukraine, to ensure the efficiency, transparency and accountability of the use of the funds. The policy conditions 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.

(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.[19]

(10) The maximum average maturity of the loans under this Decision and Decision (EU) 2022/1201 should be 25 years.

(11) Given that the loans under this Decision and Decision (EU) 2022/1201 imply the same risks for the EU budget and should have the common maximum average maturity of 25 years, the aggregate amount of the macro-financial assistance under this Decision and Decision (EU) 2022/1201 to Ukraine of EUR 6 billion should be covered by a common methodology for managing the financial and budgetary implications. In particular, the same level of budgetary cover should be established as adequate protection against the possibility of potential non-repayment by Ukraine of some or all of the loans at the scheduled time. The provisions made available from the EU budget against the two sets of loans of the exceptional macro-financial assistance should be managed as an integrated set of provisions. This will enhance the resilience and flexibility of the EU budget in response to any situation of non-payment. Article 7(2) of Decision (EU) 2022/1201 should therefore be amended accordingly.

(12) The exceptional macro-financial assistance under this Decision and Decision (EU) 2022/1201 constitutes a financial liability for the Union within the overall volume of the External Action Guarantee. The total amount of up to EUR 6 billion of exceptional macro-financial assistance loans to Ukraine should benefit from 9% of paid-in provisioning available for macro-financial assistance loans under the External Action Guarantee. The amount of provisioning should be financed from the envelope programmed for macro-financial assistance under Regulation (EU) 2021/947 of the European Parliament and of the Council**[20]** for a total amount of provisioning of EUR

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19 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).

20 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.

540 million. This amount should be committed and paid into the Common Provisioning Fund under the MFF 2021-27.

(13) 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), Euratom2020/2093[21] 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, Euratom[22]. In order to enable the Union to provide substantial support to Ukraine through MFA in unprecedented amounts 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.

(14) In accordance with the principle of sound financial management, the Common Provisioning Fund should be reinforced by means commensurate to the risks arising from the contingent liabilities linked to this unprecedently large macro-financial assistance to a single beneficiary. Without such reinforcement, the Union budget would not be able to provide, on financially safe grounds, the unprecedentedly large assistance that the war-related needs of Ukraine request. To protect the Union budget, the exceptional MFA loans of up to EUR 6 billion to Ukraine should benefit from a 70% coverage through paid-in provisioning (at the level of 9%) supplemented with national guarantees to provide budgetary cover for losses of up to a further 61% of the loan values.

(15) Resources under Regulation (EU, Euratom) 2020/2093 are under high pressure in view of the Union's overall spending priorities. It is therefore appropriate to seek an alternative solution for additional resources which does not affect the regular expenditure foreseen in the financial programming of the MFF 2021-27.

(16) Contributions by Member States in the form of guarantees have been identified as an appropriate tool to provide the protection on top of the initial paid-in provisioning. The Member States guarantees should be provided voluntarily and should constitute an appropriate backstop supporting the Union's budget, should the provisions in the Common Provisioning Fund (CPF) in respect of financial liabilities under this Decision and Decision (EU) 2022/1201 be depleted. The contributions under these guarantees should be included into the amount of authorised financial liability by derogation to the first subparagraph of Article 211(1) of the Financial Regulation. Those amounts should be taken into account for calculating the provisioning resulting from the provisioning rate referred to in Article 211(1) of the Financial Regulation, by derogation to the second subparagraph of Article 211(4) of the Financial Regulation.

(17) The guarantees provided by the Member States should cover the exceptional MFA loan under this decision and the exceptional MFA loan of EUR 1 billion under

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[21] 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).

[22] 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).

Decision (EU) 2022/1201. They should be irrevocable, unconditional and on demand. These guarantees should ensure Union's ability to repay the funds borrowed in the capital markets or from the financial institutions. They should be called only when strict conditions, relating to the adequacy of the available provisions, are met and in case the Union would not receive a payment from Ukraine of the macro-financial assistance loans granted under this Decision and Decision (EU) 2022/1201 in time for satisfying the Union's financial obligations from bonds or in case the payment schedule of the loans granted under this Decision and Decision (EU) 2022/1201 were to be modified. A call on the Member States' guarantees should be made for an amount corresponding to the amount arising from losses on financial assistance to Ukraine under this Decision and Decision (EU) 2022/1201 and to replenish the Common Provisioning Fund to the required level of paid in provisioning. The calls under the Member States' guarantees should only be made after the amount of initial provisioning set aside in respect of the MFA under this Decision and Decision (EU) 2022/1201 has been or is to be exhausted. Amounts recovered under the loan agreements in respect of the financial assistance to Ukraine under this Decision and Decision (EU) 2022/1201 should be reimbursed to the Member States who have honoured the guarantee calls, by derogation from Article 211(4)(c) of the Financial Regulation.

(18) In the event that payment of Union's financial obligations arising from bonds for macro-financial assistance to Ukraine under this Decision and Decision (EU) 2022/1201 were met temporarily from provisions set aside in the Common Provisioning Fund to cover other financial liabilities of the Union, the call on the guarantees of the Member States could be used to replenish the provisioning of those financial liabilities.

(19) Given the exceptional nature of the macro-financial assistance backed by the guarantees, it is appropriate to manage the provisions held against the financial liabilities arising from the macro-financial assistance under this Decision, Decision (EU) 2022/1201 and for any disbursements after 15 July 2022 of loans guaranteed under Decision No 466/2014/EU of the European Parliament and of the Council[23] separately from other financial liabilities under the External Action Guarantee and the Guarantee Fund for External Action. It is therefore proposed to use the provisioning set aside in the Common Provisioning Fund solely for financial liabilities from the macro-financial assistance covered by this Decision and Decision (EU) 2022/1201, instead of the general rule in Article 31(6) of the NDICI-GE regulation.[24] It is also proposed to use the provisioning set aside in the Common Provisioning Fund in respect of the loans guaranteed under Decision No 466/2014/EU disbursed after 15 July 2022 solely for the financial liabilities from those loans and to apply the rules of the Financial Regulation to the provisioning, instead of the general rule in Article 31(8) of the NDICI-GE regulation. This should be complemented by exclusion of the provisioning set aside in respect of this macro-financial assistance from the application

[23] Decision No 466/2014/EU of the European Parliament and of the Council of 16 April 2014 granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union (OJ L 135, 8.5.2014, p. 1).

[24] 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 480/2009Regulation 2021/947 (OJ L209, 14.06.2021, p. 1).

of the effective provisioning rate, by derogation from Article 213 of the Financial Regulation.

(20) The relative share of the contributions of each Member State (contribution key) to the overall guaranteed amount should correspond to the relative shares of Member States in the total gross national income of the Union. The calls on the guarantee should be made pro rata and be based on that contribution key.

(21) Member States should complete their national procedures for the guarantees to enter into force as a matter of the utmost priority. Given the urgency of situation, the time needed for the completion of those procedures should not delay the disbursement of the urgently needed exceptional macro-financial assistance to Ukraine under this Decision. The additional MFA loans under this Decision will be arranged swiftly upon entry into force of this Decision, adoption of the Memorandum of Understanding and signature of the Loan Agreement.

(22) 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 and waive to Ukraine the administrative costs. The interest rate subsidy should be 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 at least during the present MFF cycle. During the period 2021 to 2027 it should be borne by the envelope referred to in the first indent of Article 6(2), point (a) of Regulation (EU) 2021/947.

(23) 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.

(24) Faced with the urgent financing needs of Ukraine, the European Commission has agreed in July 2022 to the repurposing and disbursement of a further EUR 1.59 billion in EIB loans to Ukraine guaranteed under the External Lending Mandate 2014-20 (ELM). However, as these are loans for the Ukrainian sovereign and state-owned entities, they embody the same level of risk for the EU budget as the MFA loans. The EU budget should consequently apply the same precautionary approach to these exposures as it does to the new MFA loans. This Decision therefore applies a 70% provisioning rate to the 1.59 billion of repurposed ELM loans as well as to any further disbursements of ELM loans to Ukraine. That provisioning rate should apply instead of the provisioning rate resulting from the third sentence of paragraph 8 of Article 31 of Regulation (EU) 2021/947. The 70% provisioning for the EUR 1.59 billion ELM loans disbursements to Ukraine will be financed by the EU budget.

(25) A regular review of the provisioning for the respective MFAs and ELM loans should be undertaken every six months, commencing in mid-2023 or earlier if appropriate. This review should in particular assess whether the situation of Ukraine has evolved in a way that would warrant an increase or decrease of the provisioning rate. The Commission might re-assess the provisioning rate on an ad-hoc basis, in particular if justified by a notable relevant event. In order to ensure that the provisioning rate remains adequate to the financial risks, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be delegated to the Commission in respect of the provisioning rate where an increase or

decrease of the provisioning rate is warranted. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement on Better Law-Making of 13 April 2016. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts, and their experts systematically have access to meetings of Commission expert groups dealing with the preparation of delegated acts.

(26) Since the objective of this Decision, namely to provide exceptional 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.

(27) In view of the urgency entailed by the exceptional circumstances caused by Russia's unprovoked and unjustified military aggression, it is 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.

(28) 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.

HAVE ADOPTED THIS DECISION:

Chapter I
Exceptional macro-financial assistance

Article 1

Making available of the Union's exceptional macro-financial assistance

1. The Union shall make available to Ukraine exceptional macro-financial assistance for a maximum amount of EUR 5 000 000 000 (the 'Union's exceptional macro-financial assistance') 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 loans. The assistance shall contribute to covering Ukraine's financing gap as identified in cooperation with the international financial institutions.

2. In order to finance the Union's exceptional 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 loans under paragraph 1 and under Decision (EU) 2022/1201 shall together have a maximum average maturity of 25 years.

3. The Union's exceptional macro-financial assistance shall be made available starting on the first day after the entry into force of the Memorandum of Understanding referred to in Article 3(1) and during the availability period defined therein, even if

the guarantees set out in Chapter II, Section 1, of this Decision have not yet been provided.

4. If the financing needs of Ukraine decrease fundamentally during the period of the disbursement of the Union's exceptional macro-financial assistance compared to the initial projections, the Commission shall reduce, suspend or cancel the amount of the assistance.

Article 2

Precondition for the macro-financial assistance

1. A precondition for granting the Union's exceptional 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 shall monitor the fulfilment of the precondition set out in paragraph 1 throughout the life-cycle of the Union's exceptional 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[25].

Article 3

Memorandum of Understanding

1. The Commission shall agree with Ukraine on policy conditions to which the Union's exceptional macro-financial assistance is to be linked. The policy conditions shall be adopted in accordance with the examination procedure referred to in Article 14(2). Those policy conditions shall be set out in a Memorandum of Understanding.

2. The reporting requirements that were adopted in the context of the first part of this exceptional MFA shall be included in the Memorandum of Understanding and shall ensure, in particular, the efficiency, transparency and accountability of the use of the Union's exceptional macro-financial assistance.

3. The detailed financial terms of the Union's exceptional 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 reporting requirements and the progress made towards fulfilling the policy conditions agreed in the Memorandum of Understanding. The Commission shall inform the European Parliament and the Council about the results of that verification.

Article 4

Release of the exceptional macro-financial assistance

1. Subject to the requirements referred to in paragraph 3, the Union's exceptional macro-financial assistance shall be made available by the Commission in instalments

[25] 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).

each of which shall consist of a loan. The Commission shall decide on the timeframe for the disbursement of each instalment. An instalment may be disbursed in one or more tranches.

2. The release of the Union's exceptional 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 referred to in Article 3(1).

3. The Commission shall decide on the release of the instalments subject to its assessment of the following requirements:

   (a) respect for the precondition set out in Article 2(1);

   (b) the satisfactory implementation of the reporting requirements as agreed in the Memorandum of Understanding;

   (c) for the second and subsequent instalments, satisfactory progress towards the implementation of the policy conditions agreed in the Memorandum of Understanding.

   Before the maximum amount of the macro-financial assistance is disbursed, the Commission shall verify the fulfilment of all the policy conditions agreed in the Memorandum of Understanding.

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

5. The Union's exceptional macro-financial assistance shall in principle 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 disbursed to the Ukrainian Ministry of Finance as the final beneficiary.

Article 5

Borrowing and lending operations

1. The borrowing and lending operations shall be carried out in accordance with Articles 220 of the Financial Regulation.

2. 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.

Article 6

Interest rate subsidy

1. By derogation from Article 220(5), point (e) of the Financial Regulation, the Union may bear interests by granting an interest rate subsidy and covering administrative costs related to the borrowing and lending, with the exception of costs related to early repayment of the loan, in respect of the loans under this Decision.

2. Ukraine may request the interest rate subsidy and coverage of the administrative costs by the Union by the end of March of each year.

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 as interest rate subsidy.

Article 7

Information to the European Parliament and the Council

The Commission shall inform the European Parliament and the Council of developments regarding the Union's exceptional macro-financial assistance, including disbursements thereof and developments in the operations referred to in paragraphs 2 and 3 of Article 5, and shall provide those institutions with the relevant documents in due time.

Article 8

Assessment of implementation of the exceptional macro-financial assistance

During the implementation of the Union's 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. This operational assessment can be conducted together with the one provided for under Decision (EU) 2022/1201.

Chapter II
Reinforcement of the Common Provisioning Fund

Section 1

Guarantees by the Member States for the Union´s exceptional macro-financial assistance under this Decision and Decision (EU) 2021/1201

Article 9

Contributions in the form of guarantees by Member States

1. Member States may complement the provisioning in respect of macro-financial assistance kept in the Common Provisioning Fund, by providing guarantees up to the total amount of EUR 3 660 000 000 in respect of the Union's exceptional macro-financial assistance to Ukraine under Article 1 of this Decision and under Decision (EU) 2022/1201 ('covered MFAs').

2. Where contributions from the Member States are made, they shall be provided in the form of irrevocable, unconditional and on-demand guarantees through a guarantee agreement concluded with the Commission, in accordance with Article 10.

3. The relative share of the contribution of the relevant Member State to the amount referred to in paragraph 1 shall correspond to the relative share of that Member State in the total gross national income of the Union, as resulting from column (1) of Table 4 of Part A ('Financing of the Union's annual budget, Introduction') of the heading General Revenue of the budget for 2022 set out in the general budget of the Union for the financial year 2022, as adopted on 24 November 2021.

4. The guarantees shall become effective in respect of each Member State as of the date of entry into force of the guarantee agreement referred to in Article 10 between the Commission and that Member State.

Article 10

Guarantee agreements

The Commission shall conclude a guarantee agreement with each Member State providing a guarantee pursuant to Article 9. That agreement shall set out the rules governing the guarantee, which shall be the same for all Member States, including, in particular, provisions:

(b) establishing the obligation of the Member States to honour guarantee calls made by the Commission in respect of the covered MFAs, once the overall amounts of initial provisioning set aside in the Common Provisioning Fund in respect of financial liability arising from the covered MFAs have been or are to be drawn down;

(c) ensuring that the guarantee calls shall be made pro rata and shall be based on the contribution key referred to in Article 9(3);

(d) providing that the guarantee calls ensure the Union's ability to repay the funds borrowed, pursuant to Article 1(2), in the capital markets or from financial institutions following a non-payment, even expected, by Ukraine, which includes cases of modification of a payment schedule for whatsoever reason;

(e) ensuring that the guarantee calls may be used to replenish the Common Provisioning Fund for provisioning that has been drawn down in respect of the covered MFAs;

(f) ensuring that a Member State who has failed to honour a call shall remain liable to honour it;

(g) regarding the payment conditions.

Section 2

Provisioning of the covered MFAs and of some ELM financial liabilities in Ukraine

Article 11

Provisioning of the covered MFAs

1. For the covered MFAs, a provisioning rate of 70% shall apply instead of the general rule set out in Article 31(5), third subparagraph of Regulation (EU) 2021/947. However, the level of provisioning paid into the Common Provisioning Fund shall be kept at, and if used replenished to, 9% of the outstanding liability from the covered MFAs until the guarantees referred to in Article 9 are fully drawn on.

2. Amounts resulting from calls on the guarantees referred to in Article 10 shall constitute external assigned revenue for the repayment of financial liabilities from the covered MFAs and payments to the Common Provisioning Fund in accordance with Article 21(2), point (a)(ii) of Regulation (EU, Euratom) 2018/1046.

3. By way of derogation from the second sentence of the first subparagraph of Article 211(1) of the Financial Regulation, the amount of guarantees referred to in Article 9(1) shall be included into the amount of authorised financial liability. By way of derogation from the second subparagraph of Article 211(4) of the Financial Regulation, the amounts of provisioning referred to in paragraph 2 of this Article shall be taken into account for calculating the provisioning resulting from the provisioning rate in respect of covered MFAs.

4. By way of derogation from Article 211(4)(c) of the Financial Regulation, amounts recovered from Ukraine in respect of the covered MFAs shall not contribute to the provisioning up to the amount of the guarantee calls honoured by Member States

pursuant to Article 10(a). Those amounts shall be reimbursed to those Member States.

Article 12

Reinforcement of provisioning in respect to some financial liabilities in Ukraine guaranteed under Decision No 466/2014/EU

By way of derogation from the third sentence of Article 31(8) of Regulation (EU) 2021/947, the provisioning rate of 70% shall apply to loan amounts disbursed after 15 July 2022 under European Investment Bank financing operations in Ukraine signed by the European Investment Bank before 31 December 2021 and guaranteed by the EU in accordance with Decision No 466/2014/EU ("covered ELM financial liabilities in Ukraine") and Articles 211, 212 and 213 of the Financial Regulation shall apply, subject to Articles 13 and 14 of this Decision. For the purposes of the second subparagraph of Article 211(1) of the Financial Regulation, the provisioning shall reach by 31 December 2027 the level corresponding to the provisioning rate applied to the total amount of outstanding liabilities from covered ELM financial liabilities in Ukraine.

Article 13

Assessment of adequacy of the provisioning rate and a review procedure

1. Every six months starting on 30 June 2023, and whenever the Commission concludes that other reasons or events indicate the need to do so, the Commission shall assess whether there are new developments which could impact the adequacy of the provisioning rate, including the rate of the paid-in provisioning, referred to in Articles 11 and 12 in a lasting and meaningful manner. The Commission shall in particular identify the presence of a sustained significant change in the credit risk profile of these exposures using data of a period of at least two years.

2. The Commission shall be empowered to amend Articles 11 and 12 to adjust the provisioning rate by means of a delegated act in accordance with Article 16, in particular to reflect the developments referred to in paragraph 1.

Article 14

Provisioning held in the Common Provisioning Fund

1. Instead of the general rule in Article 31(6) of Regulation (EU) 2021/947, the financial liability from the covered MFAs 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 covered MFA shall be used solely for financial liabilities under this Decision and under Decision (EU) 2022/1201.

   Instead of the general rule in Article 31(8) of Regulation (EU) 2021/947, the financial liability from the covered ELM financial liabilities in Ukraine shall be covered separately from other financial liabilities under the Guarantee Fund for External Action and the provisioning set aside in the Common Provisioning Fund in respect of the covered ELM financial liabilities in Ukraine shall be used solely for financial liabilities under this Decision and under Decision (EU) 2022/1201.

2. 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 Fund in respect to the covered MFAs and covered ELM financial liabilities in Ukraine.

3. By way of derogation from Article 213(4)(a) of the Financial Regulation, any surplus of provisioning referred to in Article 12 shall constitute external assigned revenue within the meaning of Article 21(5) of the Financial Regulation to the external assistance programme under which Ukraine is eligible.

Chapter III
Common provisions

Article 15

Committee procedure

1. The Commission shall be assisted by 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 16

Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.

2. The power to adopt delegated acts referred to in Article 13(2) shall be conferred on the Commission for an indeterminate period of time from the *date of entry into force of this Decision.*

3. The delegation of power referred to in Article 13(2) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement on Better Law-Making of 13 April 2016.

5. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.

6. A delegated act adopted pursuant to Article 13(2) shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That

period shall be extended by two months at the initiative of the European Parliament or of the Council.

Article 17

Annual Report

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 exceptional 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 Memorandum of Understanding, Ukraine's ongoing macro-financial situation and the Commission's decisions to release the instalments of the Union's exceptional 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 exceptional macro-financial assistance and the extent to which it has contributed to the aims of the assistance.

Chapter IV
Amendment to Decision (EU) 2022/1201 and final provision

Article 18

Decision (EU) 2022/1201 is amended as follows:

1. Second sentence of paragraph 2 of Article 1 is replaced by the following:

'The loans under paragraph 1 and under Decision [COM(2022)XXX-*present proposal*] shall together have a maximum average maturity of 25 years.'

2. Article 7 is deleted.

Article 19

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 structure[26]

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 action[27]**

☒ **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.

[26] ABM: activity-based management; ABB: activity-based budgeting.

[27] 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, as a continuation of the emergency assistance already provided.
- 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. The Commission will perform a second operational assessment during the implementation of the operation.

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 several instalments. The release of the instalments would occur swiftly after the approval of this proposal and the entry into force of the corresponding MoU, and become available thereafter.

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 5 billion to Ukraine is part of the EU's objective to provide up to 9 billion in short term liquidity support. The proposal follows and amends the Decision (EU) 2022/1201 on providing macro-financial assistance to Ukraine in the amount of EUR 1 billion in loans, which was fully disbursed in early August 2022. This MFA reinforces also actions by the Union for direct humanitarian, economic and defence support, as well as Union's initatives 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 principle, 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 put in place a coverage of 70% to these additional exposures related to the situation in Ukraine. The EU budget will provide a first-loss protection for 9 % of the full package of EUR 6 billion in loans. This would be reinforced by the Member State guarantees for a further 61% of the value of the loans.

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 during the period of the MFF 2021-2027.

In addition to the provision of direct support, the European Commission has agreed in July 2022 to the repurposing of EUR 1.59 billion in European Investment Bank (EIB) External Lending Mandate (ELM) loans to Ukraine supported by guarantees from the EU budget. An amount of 1.05 billion is to be disbursed by the EIB during the third quarter of 2022. Another EUR 536 million of loans is planned to be disbursed by the EIB in 2022-23 in order to help finance the resumption of selected investment projects. However, as these are loans to the Ukrainian sovereign (or guaranteed by it), they embody the same level of risk as the exceptional MFA loans. Under the ELM Guarantee Agreements, the EIB has the right to call on the EU budget for up to the full amount of losses that it incurs on these loans. It should therefore be clarified that the same precautionary approach should apply to these exposures and that relevant additional provisions should be put into a specific common compartment of the Common Provisioning Fund (CPF) dedicated to Ukraine. This proposal therefore envisages extending the 70% provisioning rate to these EUR 1.59 billion of additional exposure stemming from EIB repurposed loans.

Possible synergies with other appropriate instruments

The EU is among the major donors to Ukraine, supporting its economic, structural and institutional reforms as well as civil society. The provision of further support to Ukraine in the form of loans, 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.[28]

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

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 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 2021 to 2027 for commitment appropriations and from 2022 to 2027 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) planned

☒ **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.*

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.[29]	from EFTA countries [30]	from candidate countries[31]	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

[29] Diff. = Differentiated appropriations / Non-diff. = Non-differentiated appropriations.
[30] EFTA: European Free Trade Association.
[31] 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'**

DG: NEAR			Year **2021**	Year **2022**	Year **2023**	Year **2024**	Year **2025**	Year **2026**	Year **2027**	**TOTAL**
□ Operational appropriations MFA I[32]										
Budget line[33] 14 02 01 11 ” Eastern neighbourhood” [34]	Commitments	(a)			20.0	20.0	20.0	20.0	20.0	**100.0**
	Payments	(b)			20.0	20.0	20.0	20.0	20.0	**100.0**
□ Operational appropriations MFA II										
Budget line 14 02 01 11 “Eastern Neighbourhood” [35]	Commitments	(a)			150.0	150.0	150.0	150.0	150.0	**750.0**
	Payments	(b)			150.0	150.0	150.0	150.0	150.0	**750.0**

32 Decision (EU) 2022/1201

33 According to the official budget nomenclature.

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

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

□ Provisioning for EUR 1.586 bn of disbursements of EIB loans under the Extended Lending Mandate										
Budget line 14 02 01 70 . 05 "NDICI - Provisioning of the Common Provisioning Fund" (9% provisioning)	Commitments	(a)					47.58	47.58	47.58	**142.74**
	Payments	(b)					47.58	47.58	47.58	**142.74**
Budget line 14 02 01 70 . 05 "NDICI – Provisioning of the Common Provisioning Fund" [36] (61% provisioning)	Commitments	(a)					322.48	322.48	322.48	**967.46**
	Payments	(b)					322.48	322.48	322.48	**967.46**
TOTAL appropriations for DG NEAR	Commitments	Total (a)			**170.0**	**170.0**	**540.06**	**540.06**	**540.06**	**1 960.2**
	Payments	Total (b)			**170.0**	**170.0**	**540.06**	**540.06**	**540.06**	**1 960.2**
DG: ECFIN			Year **2021**	Year **2022**	Year **2023**	Year **2024**	Year **2025**	Year **2026**	Year **2027**	**TOTAL**
□ MFA I[8]										
Budget line 14 02 01 70 . 06 "NDICI – Provisioning of the Common Provisioning Fund" [37]	Commitments	(c)	27.3	62.7						**90.0**

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

[37] 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	(d)				81.2	8.8			**90.0**
□ MFA II										
Budget line 14 02 01 70 . 06 "NDICI - Provisioning of the Common Provisioning Fund" [38]	Commitments	(c)		62.4	162.6	32.5	143.4	49.1		**450.0**
	Payments	(d)					91.2	300.0	58.8	**450.0**
□ Appropriations of an administrative nature financed from the envelope of specific programmes[39]										
Budget line 14 20 03 . 01 MFA Grants	Commitments	(c)		0.15			0.15			**0.3**
	Payments	(d)		0.15			0.15			**0.3**
TOTAL appropriations for DG ECFIN	Commitments	Total (c)	**27.3**	**125.2**	**162.6**	**32.5**	**143.55**	**49.1**		**540.3**
	Payments	Total (d)		**0.15**		**81.2**	**100.15**	**300.0**	**58.8**	**540.3**

TOTAL appropriations under HEADING 6 of the multiannual financial framework	Commitments	= a+c	**27.3**	**125.2**	**332.6**	**202.5**	**683.6**	**589.19**	**540.06**	**2 500.5**
	Payments	= b+d		**0.15**	**170.0**	**251.2**	**640.22**	**840.06**	**598.87**	**2 500.5**

38 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.

39 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'

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	0.484	0.424	0.072	0.072	0.072	**1.972**

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	126.098	333.084	202.924	683.672	589.262	540.132	2502.472
	Payments		0.998	170.484	251.624	640.292	840.132	598.942	2502.472

3.2.2. Estimated output funded with operational appropriations

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs ☐		Year 2021		Year 2022		Year 2023		Year 2024		Year 2025		Year 2026		Year 2027		**TOTAL**	
		OUTPUTS															
	Type[40]	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	Total No	Total cost
SPECIFIC OBJECTIVE No 1[41]…																	
- Output	Grant disbursements						170.0		170.0		170.0		170.0		170.0		850
- Output	Provisioning of the External		27.3		125.2		162.6		32.5		513.46		419.16		370.06		1 650.2
- Output	Operational Assessment			1	0.15											1	0.15

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

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

- Output	Ex-post evaluation							1	0.15							1	0.15
TOTAL			**27.3**	**1**	**125.2**		**332.6**	1	**202.65**		**683.46**		**589.16**		**540.06**		**2 500.5**

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**
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 7[42] 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**

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.

[42] 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)[43]							
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** [44]	- 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

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

[44] 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

The proposal includes contributions by Member States in the form of guarantees have been identified as an appropriate tool to provide the protection on top of the EU budget provisioning at 9%. The contributions under these guarantees should be included into the amount of authorised financial liability by derogation to the first subparagraph of Article 211(1) of the Financial Regulation. The amounts of guarantee calls should be used to satisfy the Union's financial obligations arising from the borrowings and to replenish the Common Provisioning Fund.

3.3. Estimated impact on revenue

☐ The proposal/initiative has no financial impact