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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Evaluation of DECISION (EU) 2015/601 of the European Parliament and of the Council of 15 April 2015 providing further macro-financial assistance to Ukraine

{SWD(2021) 73 final}

In April 2015, the European Parliament and Council adopted[1] a MFA operation of EUR 1.8 billion to support Ukraine. The aim was to address Ukraine's balance-of-payment crisis, triggered by the economic and political instability which followed the Russian annexation of the Crimean peninsula in 2014, and the subsequent conflicts in the eastern part of the country.

The aim of this ex-post evaluation of the third MFA operation (MFA-III) to Ukraine is to assess its relevance, efficiency, effectiveness, coherence, and EU value added. It also explores the social impact of the programme and its effect on Ukraine's public debt sustainability. This evaluation draws on evidence gathered through a variety of quantitative and qualitative research techniques, including key stakeholders consultation. A number of methodological limitations have been identified; however, they do not impact the overall reliability of the evaluation analysis. Risks and limitations identified were mitigated by using a wide range of sources, different evaluation techniques, alternative scenarios and multiple rounds of feedback.

The purpose of this evaluation is to (1) inform the future use of the MFA instrument; and (2) ensure transparency and accountability, in accordance with the Financial Regulation[2] and the MFA decision for Ukraine.

The evaluation found that MFA-III was **highly relevant** in terms of its objectives, financial envelope[3] and policy conditions. MFA conditionality addressed the main reform challenges in Ukraine, namely: public-finance management; energy sector; business environment; governance and transparency; social-safety net; and financial sector. While the country successfully delivered on most of the agreed reform conditions, difficulties were encountered in implementing reforms in the field of anti-corruption, trade and financial sector reforms, which led to the non-disbursement of the MFA's third tranche.

Given the level of ambition of most of the conditions concerned, and with the benefit of hindsight, the number of reform conditions should have been lower[4]. Although the number of conditions in MFA-III reflects the exceptional size of the assistance (more money for more reforms), a smaller number may have helped the authorities focus on key priorities and keep ownership high. In line with this insight, the Commission chose a more focused approach to the conditionality in the subsequent MFA-IV operation. Nonetheless, overall, the non-disbursement of the third tranche of MFA-III cannot be primarily explained by the size of the conditionality package.

To secure more **efficient** results, as also underlined by the external evaluator, the design of the MFA-III reform package could have better taken into account: (i) a limited institutional capacity; (ii) how political and economic instability that can delay implementation; and (iii) the existence of vested interests that undermined the effective implementation of the agreed reforms by Ukrainian authorities. Anti-corruption conditions under MFA-III were subsequently taken forward as part of MFA-IV, underlining the shared intention by the EU and the Ukrainian Government to concentrate efforts on pushing for steady progress in this critical reform area.

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1 Decision (EU) 2015/601 of the European Parliament and of the Council of 15 April 2015 providing macro-financial assistance to Ukraine: https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1476965532409&uri=CELEX:32015D0601

2 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018R1046

3 MFA-III to Ukraine was the largest single operation in the history of MFA instrument.

4 MFA-III contained 36 conditions (46 if sub-conditions are counted).

MFA-III was **effective** in supporting fiscal consolidation and helping Ukraine to improve its balance-of-payments position. The magnitude and favorable terms of the intervention allowed for fiscal savings, necessary for the implementation of structural reforms, and increased confidence in the Ukrainian economy.

MFA-III was **coherent** with the broad policy framework guiding EU-Ukraine relations. There was also a high level of external coherence with interventions coming from other international donors. The MFA not only contributed to 'burden sharing' with the International Monetary Fund (IMF) and other donors in financial terms, but also reinforced reforms promoted by the IMF and World Bank through the use of cross conditionality and complementary conditions.

The ability of the EU to mobilise and coordinate significant financial resources at a relatively quick speed was a key rationale for the intervention, in a time when Ukraine's financing need was still extremely high. MFA conditionality created a politically reinforcing effect that contributed to the mobilisation of Ukrainian authorities around crucial reforms. The programme also **added value** through its confidence-boosting effect on the private sector.

A counterfactual analysis on the MFA's **social impact** suggests that, if MFA and IMF support had not been provided, the effects on the social situation in Ukraine would have been severe. The MFA intervention had both direct and indirect positive social impacts on Ukrainian population, strengthening the social safety net and protecting low-income households against higher prices resulting from energy reforms, through compensation schemes. Overall, the majority of social indicators has improved in the concerned period.

Finally, MFA-III had a **crucial role in the sustainability of Ukraine's public debt** through a variety of channels, including a signalling effect that acted as a catalyst for additional financial support and investor confidence. The programme allowed for fiscal savings, stemming from the highly favourable loan terms, helping Ukraine to smooth its adjustment path and create fiscal space for reforms and sustained social spending.

In conclusion, MFA-III was 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. It 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.

The Commission Staff Working Document, which informs this report, provides a detailed and comprehensive assessment of the MFA intervention. A number of the conclusions related to the assessment of the evaluation criteria will require further consideration and may benefit from cross-comparison with other completed MFA operations. A meta-evaluation is planned for end of 2021 and will explore these points in more detail. The meta-evaluation will provide a synthesis of the results of the evaluation studies of MFA operations carried out in the last ten years and will consider the reliability and relevance of the methodology, process, outputs, and outcomes of all the MFA operations undertaken. In addition, the exercise will assess the timeline of MFA operations and potential linkages to added value and operational visibility.