Establishing the Ukraine Facility

2023/0200(COD) - 20/06/2023 - Legislative proposal

PURPOSE: to establish the Ukraine Facility to provide predictable financial support for Ukraine over the 2024-2027 period.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: Russia's war of aggression against Ukraine has caused Ukraine damages amounting to more than EUR 270 billion as of 24 February 2023, and reconstruction costs being estimated at EUR 384 billion, as well as a loss of access to financial markets and a significant drop in public revenue, while public expenditure to address the humanitarian situation and to maintain the continuity of State services has increased markedly.

The EU has already provided significant financial support to help Ukraine meet its short-term budgetary needs, and for Ukraine's fast recovery, through highly concessional loans channelled respectively through the Emergency Macro-Financial Assistance (EUR 1.2 billion in 2022), the Exceptional Macro-Financial Assistance (EUR 6 billion in 2022), and the Macro-Financial Assistance Plus (MFA+) programme (EUR 18 billion in 2023) and a EUR 1 billion package that combines funds under the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI) and loans from the European Investment Bank backed by the EU budget.

However, given the scale and complexity of the challenge ahead, a longer-term solution is needed to ensure that funding is well coordinated and used efficiently, and ties recovery and reconstruction to Ukraine's accession track.

CONTENT: against this background, the Commission proposes to create a new instrument for the period 2024-2027, the **Ukraine Facility**, that can cater both for short-term recovery needs and medium-term reconstruction and modernisation of Ukraine.

The new Ukraine Facility will support Ukraine's efforts to sustain macro-financial stability, promote recovery as well as modernise the country whilst implementing key reforms on its EU accession track. It will support the transition towards a green, digital and inclusive economy that is progressively aligned with EU rules and standards.

It should be noted that the scope of the Facility will **not cover humanitarian aid, defence or support to EU Member States providing protection for Ukrainian refugees fleeing the war**, which will continue to be funded via other existing instruments.

The Facility is organised around **three pillars**:

Pillar I covers **financial support** in the form of both **non-repayable** support and **loan** support to Ukraine. This will ensure stable and predictable funding, supporting the sustainability of Ukraine's finances, while providing a solid framework for the protection of the EU budget. To access this support, the Government of Ukraine will need to prepare a **Plan** for the recovery, reconstruction and modernisation of the country and detail the reforms and investments it intends to undertake as part of its EU accession process. Funds under this Pillar of the Facility will be provided based on the implementation of the Plan, which will be underpinned by a set of conditions and a timeline for disbursements agreed with the EU. Significant emphasis will be placed on public administration reform, good governance, the rule of law, anti-corruption and sound financial management.

Pillar II concerns a specific **Ukraine Investment Framework** designed to attract and mobilise public and private investments for Ukraine's recovery and reconstruction, in support of the Plan's implementation. It will complement all existing instruments supporting Ukraine, such as blending and guarantees, with the possibility of scaling up when conditions allow for it.

Pillar III covers **technical assistance** and other supporting measures, including mobilisation of expertise on reforms, support to municipalities, civil society, and other forms of bilateral assistance normally available for pre-accession countries under the Instrument for Pre-Accession (IPA), also supporting the objectives of the Ukraine Plan. Under this pillar, it will also be possible to support other initiatives aimed at responding to the Russian aggression against Ukraine, including to enforce international law in relation with crimes committed by Russia on the territory of Ukraine. Interest rate subsidies for the cost of loans will also be covered under this pillar.

Precondition for Union support

The proposal stipulated that a precondition for the support to Ukraine under the Facility will be that Ukraine continues to **uphold and respect effective democratic mechanisms**, including a multiparty parliamentary system, and the rule of law, and to guarantee respect for human rights, including the rights of persons belonging to minorities.

Monitoring and transparency

The Commission will continuously monitor the implementation of the Facility. Specifically, Ukraine should establish a monitoring system and Ukraine will be expected to report to the Commission annually on its implementation of the part of the Ukraine Plan covered by the Facility. This will include reporting on Ukraine's internal control system and on any amounts unduly paid or misused, and eventually recovered by the EU. Ukraine will be obliged to publish the data on persons and entities receiving amounts of funding exceeding the equivalent of EUR 500 000 for the implementation of reforms and investments specified in the Ukraine Plan.

Budgetary implications

The overall amount of the Facility is proposed to be up to EUR 50 billion for the period from 2024 to 2027 for all types of support. This amount will be provided through a combination of both grants and loans as well as provisioning for budgetary guarantees, to be decided by the Member States and the European Parliament in the context of the adoption of the annual EU budget. A new special instrument, over and above the ceilings of the MFF, the **Ukraine Reserve** may support all expenditure other than in the form of loans, including non-repayable support, grants and provisioning for guarantees. The amendment to the MFF Regulation also establishes that the Ukraine Reserve should aim to provide at least EUR 2.5 billion in current prices as an annual indicative amount.